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CREDIT NUMBER 4387-PAK

Project Agreement

(Balochistan Small Scale Irrigation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

PROVINCE OF BALOCHISTAN

Dated June 25, 2008

CREDIT NUMBER 4387-PAK

PROJECT AGREEMENT

AGREEMENT dated June 25, 2008, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (the "Association") and PROVINCE OF BALOCHISTAN, acting through its Governor (the "Project Implementing Entity") (the "Project Agreement") in connection with the Financing Agreement of same date between the Islamic Republic of Pakistan (the "Recipient") and the Association (the "Financing Agreement"). 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 the Project 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 Project in accordance with the provisions of Article IV of the General Conditions and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.
- 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 Project 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 Additional Chief Secretary (Dev.) of the Planning and Development Department.

4.02. The Association's Address is:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

4.03. The Project Implementing Entity's Address is:

Planning and Development Department
Government of Balochistan
Quetta, Pakistan

Cable address:	Telex:	Facsimile:
DEVELOPMENT Quetta, Pakistan	7875MLNSE PK	92-81-9202419

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Yusupha B. Crookes
Authorized Representative

PROVINCE OF BALOCHISTAN

By

/s/ Ahmed Bakhsh Lehri
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Institutional and Other Arrangements

A. Overall Project Implementation and Coordination

1. The Province of Balochistan shall implement the Project in accordance with the Project Implementation Manual, the Environmental Management Plan, the Resettlement Action Plan, Procurement Manual, and the Financial Management Manual, and except as the Association shall otherwise agree, shall not amend or waive any provision thereof if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the implementation of the Project.
2. The Project Implementing Entity shall vest responsibility for overall Project implementation oversight in the Irrigation and Power Department. To this end, the Project Implementing Entity shall maintain within the IPD, throughout the implementation of the Project, a PIU headed by a qualified Project Director (with a rank no less than Superintending Engineer – Basic Pay Scale Grade 19) and with functions, staffing, and resources satisfactory and acceptable to the Association, which unit shall be responsible for overseeing the day-to-day coordination, monitoring, financial management and reporting, procurement, implementation, and administration of the Project.
3. The Project Implementing Entity shall maintain, throughout the implementation of the Project, an interdepartmental Project Steering Committee with functions and composition satisfactory and acceptable to the Association, to be headed by the Additional Chief Secretary of Balochistan's Planning and Development Department, which committee shall be responsible for, among other things, formulation of guidelines and policies for the implementation of the Project, coordination of inputs from provincial and district government departments, approval of annual work plans, screening of criteria for activities to be financed under the Project and evaluation of results in implementation of activities under the Project.
4. The Project Implementing Entity shall appoint, by no later than February 29, 2008, and thereafter maintain throughout Project implementation, a Design and Supervision Consultant firm (DSC), with qualification, terms of reference and experience satisfactory to the Association, to be responsible for, among other things: (i) providing assistance and technical support to the PIU in the implementation of the Project; (ii) preparing new basin plans; (iii) mobilizing COs and FOs; (iv) supervising implementation of the Environmental and Management Plan and Resettlement Action Plan; (v) preparing detail designs and

tender documentation for civil works; (vi) administering civil works contracts; and (vii) coordinating delivery of irrigation and agricultural extension services (including information dissemination on better water management and agricultural practices).

5. In implementing Part B of the Project, the Project Implementing Entity shall select Farmer's Organizations and Community Organizations in accordance with eligibility criteria set out in the Project Implementation Manual, which organizations are to be generally responsible for the carrying out of the following Project activities:
 - (a) Community Organizations shall be responsible for planning, deciding on activities/designs to be implemented, making payments to beneficiaries for carrying out activities under the Project, and, implementing and managing watershed management improvement and rangeland rehabilitation activities under the Project including: (i) operating, improving and maintaining soil and water interventions; (ii) assisting in natural resource awareness raising; (iii) where possible, imparting watershed and rangeland management information to nomads and grazers; (iv) organizing and collecting beneficiary contributions to capital and operation and maintenance costs; and (v) disseminating of new and modified practices and technologies applicable to the Project for productivity enhancement; and
 - (b) Farmers' Organizations shall be responsible for implementation, rehabilitation and modernization of on-farm water management activities including: (i) overall planning and designing of activities in collaboration with PIU; (ii) implementing on-farm water management interventions; (iii) operating and maintaining irrigation systems; (iv) organizing and collecting beneficiaries' contributions to capital and operation and maintenance costs; (v) procuring of materials required for the community based investments; (vi) future development of the irrigation systems after Project completion; and (vii) dissemination of new and modified practices and technologies applicable to the Project for productivity enhancement.
6. For purposes of Section II.B of this Schedule, the Project Implementing Entity shall, by no later than two (2) months as of the Effective Date, select and retain independent auditors with qualifications and experience, and under terms of reference, acceptable to the Bank, to: (i) carry out quarterly audits of all the Project accounts, expenditures, financial reports and financial statements; and (ii) prepare the annual audited Financial Statements for the Project.

B. Safeguards

1. The Project Implementing Entity with the assistance of the Design and Supervision Consultants shall ensure that technical designs for all construction works under the Project are based on sound international engineering and construction standards.
2. The Project Implementing Entity shall ensure that: (a) no activities involving land takings or acquisition will be carried out under the Project without the prior approval of the Association; and (b) such land acquisition or takings, and the mitigation of the Project's social impact (such as involuntary resettlement of Displaced Persons) is carried out in accordance with the Environmental Management Plan and/or the Resettlement Action Plan, as agreed with the Association.
3. The Project Implementing Entity shall ensure that no civil works shall be carried out:
 - (a) in connection with the construction of the peripheral protection bund for the BKK and associated civil works within the boundaries of the Tora Shah community, until the Project Implementing Entity has reached an agreement with such community, in terms satisfactory to the Association, whereby the community expresses its concurrence with and commits its efforts to the implementation of the Project activities; and
 - (b) under Parts A and B of the Project, when any such civil works would give rise to Displaced Persons, until such Displaced Persons have been fully resettled and properly compensated, in terms acceptable to the Association, pursuant to the Resettlement Action Plan.

C. Selection Criteria for Small Scale Irrigation Schemes

1. In carrying out Part B of the Project, the Project Implementing Entity shall screen all sites proposed for Project intervention pursuant to the social, technical, environmental and economic selection criteria set forth in Project Implementation Manual, which criteria shall include the following:
 - (a) the scheme source or catchment area is located within the Pishin Lora Basin;
 - (b) there are no major water entitlements disputes within the scheme area;
 - (c) top quartile of water right holders and land owners should not own more than seventy percent (70%) of total water rights or seventy percent (70%) of total land available, respectively;

- (d) the scheme must have a potential for increasing agricultural production;
 - (e) minor perennial irrigation schemes must have an assured minimum supply of fourteen (14) liters per second (0.5 cubic feet per second);
 - (f) the scheme development must have a 12.5%, or higher, estimated investment rate of return; and
 - (g) beneficiaries must have established a CO or FO holding a bank account where to deposit the funds to be contributed by the CO or FO pursuant to paragraph 2 of this Section I.C.
2. Before commencing any civil works under Part B of the Project, the Project Implementing Entity will enter into a cost sharing agreement with the CO or FO representing the beneficiaries of the irrigations scheme selected for Project intervention, whereby the CO or FO undertake to: (i) contribute ten percent (10%) of the development costs for the selected small irrigation scheme to be rehabilitated/upgraded (two percent (2%) in cash and eight percent (8%) in kind); and (ii) cover all costs for the future operation and maintenance of such irrigation scheme.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports for the Project in accordance with the provisions of Section 4.08(b) of the General Conditions and on the basis of indicators agreed with the Association. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Recipient not later two (2) weeks after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.
2. (a) The Project Report which the Project Implementing Entity shall furnish to the Association on or about March 31, 2010, in accordance with the provision of Section 4.08 of the General Conditions (for purposes of this Section the "Mid-Term Review Report"), shall: (i) integrate the results of the monitoring and evaluation activities performed pursuant to paragraph A.1 of this Section II, on the progress achieved since commencement of Project implementation in the carrying out of the Project; and (ii) set forth the measures recommended to ensure satisfactory Project implementation and achievement of the Project objectives for the remainder of the Project's implementation; and

- (b) The Project Implementing Entity shall review with the Association, by June 30, 2010, or such later date as the Association shall request, the Mid-Term Review Report, and, thereafter, take all measures required to ensure the satisfactory completion of the Project and the achievement of the Project objectives, based on the conclusions and recommendations of the Mid-Term Review Report and the Association's view on the matter.
- 3. The Mid-Term Review Report shall cover, *inter alia*: (i) Project scope, design and implementation arrangements; (ii) implementation progress against indicators agreed to with the Association; (iii) procurement performance; (iv) performance of consultants; (v) fund flows; (vi) the progress of implementation of the Environmental Management Plan and the Resettlement Action Plan; and (vii) any other issue agreed between the Project Implementing Entity and the Association.
- 4. The Project Implementing Entity shall provide to the Recipient not later than four (4) months after the Closing Date, for incorporation in the report referred to in Section 4.08(c) of the General Conditions all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.

B. Financial Management, Financial Reports, 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, in a manner adequate to reflect the operations, resources and expenditures related to the Project.
- 2. Without limitation on the provisions of Part A of this Section, 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 un-audited financial reports for the Project, covering the quarter, in form and substance satisfactory to the Association.
- 3. The Project Implementing Entity shall also have its financial statements referred to in subparagraph (1) of this Section audited by the 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 (1) 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 Project and to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Schedule 2 to the Financing Agreement.
2. The Project Implementing Entity shall maintain throughout the implementation of the Project a procurement documentation and record keeping system, including a website showing the status of procurement of various contracts and their performance, shall be established or adopted, in terms satisfactory to the Association, and be fully operational.

Section IV. Other Undertakings

1. The Project Implementing Entity shall: (a) no later than March 31 in each year, commencing on March 31, 2008, furnish to the Association, for its review and agreement a draft annual plan of the Project activities, including a work program and proposed budget, for the next following Fiscal Year; (b) not later than next following May 31, finalize such plan based on the draft as so discussed with, and agreed by, the Association; and (c) thereafter, carry out Project activities in accordance therewith.
2. The Project Implementing Entity shall not later than June 30, 2009, contract consultants with qualification, terms of reference and experience satisfactory to the Association, to carry out monitoring and evaluation studies and analysis on the Project's design, impact, implementation methodology and outcomes.