

CONFORMED COPY

CREDIT NUMBER 4358 - PAK

Project Agreement

(Sindh Water Sector Improvement Phase-I Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

PROVINCE OF SINDH

Dated October 5, 2007

CREDIT NUMBER 4358-PAK

PROJECT AGREEMENT

AGREEMENT dated October 5, 2007, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (the "Association") and PROVINCE OF SINDH acting by its Governor (the "Project Implementing Entity") (the "Project Agreement") in connection with the Financing Agreement of same date between 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 the Additional Chief Secretary (Development), Government of Sindh.

4.02. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INTBAFRAD 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 Sindh
Tughlaq House
Karachi, Pakistan

Cable address:	Facsimile:
DEVELOPMENT Karachi Pakistan	92-21-9211922

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Yusupha B. Crookes
Country Director
Pakistan

PROVINCE OF SINDH

By

/s/ Yahya Waliullah
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Institutional and Other Arrangements

A. General

1. (a) The Project Implementing Entity shall vest responsibility for overall Project implementation in SIDA and ensure that SIDA is maintained throughout Project implementation with staffing, resources and terms of reference acceptable to the Association.
- (b) SIDA shall be responsible for, *inter alia*: (i) registering FOs under the Ordinance; (ii) ensuring that FO capacity is strengthened and providing support to the FOs following the transfer of asset management to them; (iii) managing the financial management, procurement and disbursement processes under the Project including ensuring that funds are transferred to other Implementing Agencies for the implementation of their respective activities under the Project; (iv) contributing to the Project's overall management information system; (v) preparation of the master plan for flood and drainage management on the left bank of the Indus river and plans for delta area and costal zone under Part C.2 of the Project in coordination with other concerned provincial and federal agencies; (vi) collaborating with PCMU for the preparation of future projects under Part E.2 of the Project; and (vii) provision of technical assistance, training and strategic studies under Part E.3 of the Project.
2. The Project Implementing Entity shall maintain AWBs throughout Project implementation, to be responsible for, *inter alia*, entering into IDMTAs with eligible FOs implementing civil works for improvement of main and branch canals under Part B.1 of the Project, assisting FOs in identifying, preparing and implementing Sub-Projects for Distributaries and Minor Canals, receiving the AWB/SIDA share of water charges collected by FOs, and improving of the drainage system under Part B.3 of the Project.
3. The Project Implementing Entity shall ensure that FOs maintain a central role in Project implementation. To this end, the Project Implementing Entity shall ensure that FOs who enter into IDMTAs with AWBs progressively take over irrigation management from AWBs including distribution of water among users, collection of water charges, maintaining income and expenditure accounts, and carrying out the routine operation, maintenance and repairs of the distributary or minor canals. FOs shall also be responsible for identifying, planning and implementing Sub-Projects for Distributaries and Minor Canals.

4. The Project Implementing Entity shall ensure that IPD carries out the feasibility studies for rehabilitation of barrages under Part C.1 of the Project and coordinates with SIDA on the preparation of the master plan for the Indus left bank, delta and coastal zones under Part C.2 of the Project. The Project Implementing Entity shall also ensure that IPD works closely with SIDA and AWBs in operating the canal system and implementation of all activities on main and branch canals.
5. The Project Implementing Entity shall ensure that PCMU is maintained throughout Project implementation for purposes of overall coordination of Project implementation and monitoring Project implementation activities. To this end PCMU shall be responsible for carrying out Project monitoring and evaluation studies and supervision of the overall Project Environment Management Framework and the Social Impact Management Framework, as well as specific environment and social plans for Sub-Projects for Distributaries and Minor Canals under Part D of the Project. PCMU shall also be responsible for preparation of future water sector projects under Part E.2 of the Project in collaboration with SIDA and IPD, carrying out various studies and managing technical assistance and training under Part E.3 of the Project in coordination with SIDA, and shall also act as the secretariat for the Project Steering Committee.
6. The Project Implementing Entity shall appoint and maintain throughout Project implementation, PMCA in accordance with paragraph E.1 of Section III of the Schedule to this Agreement. PMCA shall be responsible for recruitment and supervision of consulting services under the Project as well as providing support for the recruitment of SIDA and AWB staff recruited under the Project. To this end, PMCA shall be responsible for the preparation of requests for proposal packages, reviewing of the terms of reference for consultants, short listing of consultants, evaluation of technical and financial proposals, and awarding of contracts with the clearance of the Project Implementing Entity. During Project implementation, PMCA shall be responsible for reviewing any changes proposed in the terms of reference or scope of work of the consultants and variations resulting from such proposals, overseeing work of consultants and evaluating the performance of the consultants in carrying out their responsibilities, examining whether the purpose of consulting services is being achieved, as well as overseeing payments made to the consultants. PMCA shall also be responsible for developing a procurement website to be managed and updated by PCMU and for carrying out overall monitoring of the procurement under the Project.
7. The Project Implementing Entity shall maintain the Project Steering Committee with composition, resources and terms of reference acceptable to the Association, to be responsible for providing policy and strategic guidance and monitoring overall Project implementation and outcomes. To this end the Project Steering Committee shall be responsible for: (i) reviewing physical and financial progress

reports, evaluating outcomes (including those relating to social and environment safeguards), ensuring consistency of Project implementation with the Project Implementing Entity's implementation framework, providing policy guidelines and advising Implementing Agencies how issues affecting implementation can be overcome; (ii) Ensuring provision of adequate budgetary allocation for timely implementation of the Project and for operation and maintenance; (iii) resolving issues not settled by SIDA and PCMU; (iv) ensuring adequacy and continuity of Project management staff; and (v) ensuring that the Project complies with legal and financial covenants set out in the Financing Agreement and the Project Agreement.

B. Sub-Projects for Distributaries and Minor Canals

To be eligible to receive assistance for carrying out Sub-Projects for Distributaries and Minor Canals, potential beneficiaries must prepare and furnish one or more proposals to SIDA that fully satisfy the eligibility criteria specified in the PIP, the Environment Management Framework and the Social Impact Management Framework. Specifically, SIDA shall ensure that:

- (a) potential beneficiaries have formed an FO at the level of the distributary or minor canal, in accordance with the Ordinance;
- (b) the FOs have the technical capacity to participate in the carrying out of the proposed Sub-Projects for Distributaries and Minor Canals;
- (c) the FOs have entered into IDMTAs with SIDA, in form and substance satisfactory to the Association, for the operation and maintenance of the facilities on which the Sub-Projects for Distributaries and Minor Canals are to be carried out;
- (d) environment and social assessments have been carried out for the Sub-Projects for Distributaries and Minor Canals in accordance with the Environment Management Framework and the Social Impact Management Framework, and relevant plans for the mitigation of environment and social impacts are prepared and approved by the Association;
- (e) the technical designs for construction works are based on international standards and that such designs ensure that the full discharge entitlement of each canal is determined on the basis of their share of diversions at the head of the main canal command system over the previous ten years; and
- (f) acting through such FOs, the potential beneficiaries have: (i) furnished evidence to SIDA that the proposed Sub-Projects for Distributaries and Minor Canals satisfy all the eligibility and prioritization criteria

satisfactory to the Association set out in the PIP and applicable to such Sub-Projects for Distributaries and Minor Canals, (ii) reached agreement with SIDA, in form and substance satisfactory to the Association, for carrying out the Sub-Projects for Distributaries and Minor Canals; (iii) through their representatives participated in the planning, design, invitation and evaluation of bids, and awarding contracts for the procurement of civil works and materials.

C. Project Implementation Plan

1. The Project Implementing Entity shall implement the Project in accordance with the PIP 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.

D. Environment and Social Safeguards

1. The Project Implementing Entity shall ensure that the Project is carried out in accordance with the Environment Management Framework and the Social Impact Management Framework, and that the implementation of the Environment Management Framework and the Social Impact Management Framework is adequately monitored and supervised throughout Project Implementation.
2. Specifically, the Project Implementing Entity shall ensure that appropriate environment management plans and social impact management plans are prepared and adopted before any civil works, both for main and branch canals and for Sub-Projects for Distributaries and Minor Canals, are carried out, all in accordance with the Environment Management Framework and the Social Impact Management Framework.
3. The Project Implementing Entity shall ensure that: (a) no main or branch canal, distributary or minor canals, drains, offices for 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 land acquisition and mitigation of other social impacts such as involuntary resettlement, is carried out in accordance with the Social Impact Management Framework.
4. The Project Implementing Entity shall ensure that construction works are not carried out in any known protected areas, wildlife sanctuaries or wetlands and are limited to the areas that are already cultivated and irrigated. Works adjacent to such protected and/or ecologically significant areas would be undertaken after review of their designs and associated environment and social impact

assessments and environment and social impact management plans by SIDA and the Association.

E. Anti-Corruption

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

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Project Implementing Entity shall and shall cause SIDA to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each such Project Report shall cover the period of one calendar quarter, and shall be furnished to the Recipient not later than three 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 report which the Project Implementing Entity shall furnish to the Association on or about June 30, 2010, in accordance with the provisions of Section 4.08 of the General Conditions (for the 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 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 October 31, 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 views on the matter.
3. The Mid-Term Review Report shall cover, *inter alia*: (i) Project scope, design and implementation arrangements; (ii) implementation progress against agreed indicators in the PIP; (iii) procurement performance; (iv) performance of consultants; (v) fund flows; (vi) the progress of implementation of the Environmental Management Framework; and (vii) any other issue agreed between the Project Implementing Entity and the Association.

4. The Project Implementing Entity shall cause to be provided to the Recipient not later than four 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 ensure that SIDA maintains a financial management system and prepares financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity and SIDA, including the operations, resources and expenditures related to the Project.
2. The Project Implementing Entity shall ensure that SIDA has its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one Fiscal Year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Association not later than six months after the end of the period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Credit shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding*
(b) Shopping
(c) Direct Contracting
(d) Community Participation**

***National Competitive Bidding** shall be subject to the following additional procedures:

- i. 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;
- ii. Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- iii. Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;
- iv. Bidding shall not be restricted to pre-registered firms;
- v. Qualification criteria shall be stated in the bidding documents;
- vi. Bids shall be opened in public, immediately after the deadline for submission of bids;
- vii. Estimates shall be prepared using market rates and bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- viii. Before rejecting all bids and soliciting new bids, the Association's prior concurrence shall be obtained;

- ix. Bids shall be solicited and works contracts shall be awarded on the basis of unit prices and not on the basis of a composite schedule of rates;
- x. Contracts shall not be awarded on the basis of nationally negotiated rates;
- xi. Single bid shall also be considered for award;
- xii. Contracts shall be awarded to the lowest evaluated and qualified bidder;
- xiii. Post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders;
- xiv. draft NCB contracts shall be reviewed by the Association in accordance with the prior review procedures;
- xv. Government-owned enterprises shall be eligible to bid only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the Recipient;
- xvi. A firm declared ineligible by the Association, based on a determination by the Association that the firm has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for or in executing an Association-financed contract, shall be ineligible to be awarded an Association-financed contract during the period of time determined by the Association.
- xvii. The Association shall declare a firm ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Association, if it at any time determines that the firm has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a contract financed by the Association; and
- xviii. Each contract financed from the proceeds of a Credit shall provide that the suppliers, contractors and subcontractors shall permit the Association, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by the Association. The deliberate and material violation by the supplier, contractor or subcontractor of such provision may amount to obstructive practice.

**** Community Participation** shall be carried out in accordance with the procedures set out in the Operational Manual which shall include the following:

- (i) works estimated to cost less than \$100,000 equivalent per contract may be procured under lump-sum, fixed-price contracts awarded to the FOs concerned; and
- (ii) 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.

C. Particular Methods of Procurement of Consultants' Services

- 1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
- 2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Selection Based on the Consultants' Qualifications
(b) Selection of Individual Consultants
(c) Single-Source Selection
(d) Selection under a Fixed Budget
(e) Least-Cost Selection
(f) Quality-Based Selection

D. Review by the Association of Procurement Decisions

- 1. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods or works procured on the basis of International Competitive Bidding or Direct Contracting; (b) the first contract for goods, irrespective of value, procured on the basis of National Competitive Bidding and awarded by each Implementing Agency; (c) the first three contracts for works procured on the basis of National Competitive Bidding irrespective of value; (d) the first contract for works, irrespective of value, awarded by an FO in each AWB; (e) each contract for goods or works estimated to cost \$200,000

equivalent or more; (f) the first contract awarded to an FO in each AWB, procured on the basis of Community Participation; (g) the first contract for goods and/or works awarded by each Implementing Agency procured on the basis of Shopping; (h) each contract for consultants' services procured on the basis of Single-Source Selection; (i) the first contract for consultants' services provided by a firm, irrespective of value, awarded by each Implementing Agency; (j) the first contract for consultants' services provided by an individual consultant, irrespective of value, awarded by each Implementing Agency; (k) each contract for consultants' services provided by a firm estimated to cost \$100,000 equivalent or more; and (l) each contract for consultants' services provide by an individual consultant estimated to cost \$50,000 equivalent or more. All other contracts shall be subject to Post Review by the Association.

E. Procurement Risk Management

1. The Project Implementing Entity shall no later than August 31, 2007, appoint PMCA in accordance with Section III.C of this Schedule, and thereafter maintain it throughout Project Implementation with terms of reference, resources and staffing acceptable to the Association, to be responsible for recruitment and supervision of consulting services under the Project.
2. The Project Implementing Entity shall ensure that by not later than March 31, 2008, procurement documentation and record keeping systems, including a website showing the status of procurement of various contracts and their performance shall be established and made fully operational by PCMU and SIDA.
3. The Project Implementing Entity shall ensure that consultants recruited through the PMCA process under the Project shall be responsible for preparing designs and bidding documents, procurement of works, bid evaluation and construction supervision. Such consultants shall act as the "engineer" for major civil works contracts, including contracts for the improvement of canals, distributaries and minors, and shall ensure that the Procurement Guidelines are followed in bidding, award, and supervision of these contracts.
4. The Project Implementing Entity shall ensure that enhanced community participation in planning and management of construction works is supported under the Project. This shall include awarding of construction contracts directly to FOs based on Community Participation and permitting FOs to enter into contracts for Sub-Projects for Distributaries and Minor Canals.
5. The Project Implementing Entity shall ensure that Transparency International participates as an observer in all bid/proposal opening and evaluation committee meetings. To this end, Transparency International shall, as an observer, monitor whether: (a) bid opening is done in a timely manner in accordance with the

schedule; (b) bid opening venue is accessible to all prospective bidders; (c) bid documents are made available to all interested parties and are also available on the procurement website; (d) bids are received in sealed forms, opened publicly and kept in a verifiably safe place after opening until the evaluation is complete to avoid any tampering after opening; (e) bid evaluations are carried out confidentially and intermediate working reports are kept safely with access to only the evaluators; (f) complaints are received, entered into the system and processed through the established complaint redress system (g) report to PMCA any issues or anomalies in procurement process and if necessary bring such anomalies to the attention of the Project Steering Committee and the Planning and Development Department which shall recommend and take appropriate action. Transparency International shall carry out such reviews or participate in bidding procedures for contracts that are above the threshold for prior review and, on a random basis, for contracts subject to post review as set out in Section III paragraph D.1 of this Schedule.

6. The Project Implementing Entity shall no later than March 31, 2008, put in place a system, satisfactory to the Association, of handling procurement complaints, which shall include management of the complaints system by PMCA with oversight by the Project Steering Committee, maintenance of a complaints database, adoption of a standard protocol with appropriate triggers for carrying out investigations, and taking action against involved parties. For procurement done through International Competitive Bidding, the World Bank prescribed complaint redress mechanism will apply.

Section IV. Other Undertakings

1. The Project Implementing Entity 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.
2. The Project Implementing Entity shall not later than December 31, 2007, contract consultants with qualifications, terms of reference and experience satisfactory to the Association, to carry out monitoring and evaluation studies under Part D of the Project.
3. The Project Implementing Entity shall ensure that technical designs for construction works under the Project (including for major canals) are based on international standards and that such designs ensure that the full discharge entitlement of each canal is determined on the basis of their share of diversions at the head of the main canal command system over the previous ten years.

