
LOAN NUMBER 8994-PK

Loan Agreement

(Karachi Water and Sewerage Services Improvement Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

LOAN AGREEMENT

AGREEMENT dated as of the Signature Date between ISLAMIC REPUBLIC OF PAKISTAN (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”).

WHEREAS (A) The Borrower has requested the support listed in (i) and (ii) immediately below to participate in the financing of its project referred to in this Agreement:

- (i) a loan from Asian Infrastructure Investment Bank in an amount equivalent to \$40,000,000; and
- (ii) a loan from the Bank in an amount of \$40,000,000.

(B) The Borrower intends to ensure that the Project Implementing Entity provide, an amount equivalent to not less than \$ 20,000,000 for the financing of the Project.

NOW, THEREFORE, the Borrower and the Bank hereby agree as follows.

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower the amount of forty million Dollars (\$40,000,000), as such amount may be converted from time to time through a Currency Conversion (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.

- 2.04. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.05. The interest rate is the Reference Rate plus the Variable Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.
- 2.06. The Payment Dates are March 1 and September 1 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with Schedule 3 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article V of the General Conditions, Schedule 2 to this Agreement and the Project Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness consists of the following, namely, that the Co-financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Borrower's Representative is the Secretary, Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer of the Economic Affairs Division of the Ministry of Finance, Revenue and Economic Affairs.

5.02. For purposes of Section 10.01 of the General Conditions: (a) the Borrower's address is:

Economic Affairs Division
Ministry of Finance, Revenue and Economic Affairs,
Islamabad
Pakistan; and

(b) the Borrower's Electronic Address is:

Facsimile:	E-mail:
92-51-910-4016	Secretary@ead.gov.pk

5.03. For purposes of Section 10.01 of the General Conditions: (a) the Bank's address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

(b) the Bank's Electronic Address is:

Telex:	Facsimile:	E-mail:
248423(MCI) or 1-202-477-6391 64145(MCI)		PakistanCMU@worldbank.org

AGREED as of the Signature Date.

ISLAMIC REPUBLIC OF PAKISTAN

By



Authorized Representative

Noor Ahmed

Name: _____

Title: Secretary

Date: 26-Nov-2019

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By



Authorized Representative

Patchamuthu Illangovan

Name: _____

Title: Country Director

Date: 12-Nov-2019

SCHEDULE 1

Project Description

The objectives of the Project are to improve access to safe water services in Karachi and to increase KWSB's financial and operational performance.

The Project consists of the following parts:

Part 1. Operational and Enabling Environment Reform

1.1 Revenue Management, Customer Care and Communication:

- (a) Improving KWSB's revenue streams by: (i) updating customer data; (ii) upgrading its metering and billing systems; (iii) carrying out a water tariff study; and (iv) applying waste water tariff; and
- (b) Improving KWSB's relationship with its customers, by: (i) establishing and operationalizing six (6) customer service centers; (ii) training staff; and (iii) developing and implementing grievance redress mechanism and a communications strategy.

1.2 Non-Revenue Water Reduction:

Developing a systematic non-revenue water reduction program with district meter areas, measures for leak detection and repair and a program for the maintenance of the meters installed under this Project.

1.3 Institutional Reform and Human Resources:

Improving KWSB's human resources and operations, by: (a) upgrading human resources systems; (b) training staff including on gender aspects; and (c) designing and implementing an institutional reform program designed to improve recruitments, as well as cost recovery and tariff setting (involving public consultations).

1.4 Social Sector Policy and Katchi Abadi Program:

Providing technical assistance to KWSB for: (a) the development of a program of infrastructure investments in three (3) informal settlements (*katchi abadi*) in close cooperation with the communities and women organizations; and (b) the carrying out of preparatory works for such infrastructure investments.

1.5 Capacity Building:

- (a) Providing technical assistance for the design and implementation of a climate change sensitive asset management program and the upgrade of the geographic information system; (b) strengthening KWSB's capacities in financial management and monitoring of industrial discharges into the sewerage and storm water system; and (c) carrying out an assessment of the priority sewers.

Part 2. Infrastructure Investments

Carrying out a program of infrastructure investments contributing to the implementation of the reforms supported under Part 1 of the Project, including in the following priority areas:

- 2.1 water network rehabilitation with a focus on reducing non-revenue water, installing district and customer meters and developing chlorination facilities;
- 2.2 sewer network rehabilitations, with a focus on restoring network integrity in critical areas and reducing sewerage leakage and flooding, including by strengthening KWSB's fleet of sewerage suction and jetting trucks;
- 2.3 rehabilitation of safe water supply and sanitation in the informal settlements supported under Part 1.4 of the Project, including through the installation or upgrading of water automated teller machines, metered house connections and provision of bulk water supply, using various arrangements for their operation and maintenance, in close consultation with the communities; and
- 2.4 improvement of energy efficiency, by upgrading KWSB's pumping stations and water treatment plants.

Part 3. Project Management and Studies

- 3.1 Providing technical assistance for the management of the Project, including in the fiduciary, monitoring and environmental and social areas; and
- 3.2 carrying out of studies, assessments and analyses, and developing frameworks, plans and bidding documents for the improvement of water and sewerage services in Karachi.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. On-lending.

1. To facilitate the implementation of the Project, the Borrower shall make the proceeds of the Loan available to the Project Implementing Entity under the same terms and conditions under which they are made available by the Bank and the Borrower and in accordance with the Borrower's on-lending and budgetary policies and procedures.
2. Notwithstanding the provisions of the preceding paragraph, in the event of a conflict between the on-lending and budgetary policies and procedures of the Borrower and the provisions of this Agreement, including such additional instructions as the Bank shall have specified in the Disbursement and Financial Information Letter, the provisions of this Agreement, including said additional instructions, shall govern.
3. The Borrower shall exercise its rights under the on-lending arrangements referred to in paragraph 1 of this Part A in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive its rights or obligations under said arrangements.

B. Safeguards

The Borrower shall ensure, and cause the Project Implementing Entity to ensure, that the Project is carried out with due regard to appropriate health, safety, social, and environmental standards and practices, and in accordance with the Safeguards Instruments and the provisions of Section I.C of the Schedule to the Project Agreement.

Section II. Project Monitoring Reporting and Evaluation

The Borrower shall cause the Project Implementing Entity to furnish to the Bank each Project Report not later than forty-five (45) days after the end of each calendar quarter, covering the calendar quarter.

Section III. Withdrawal of Loan Proceeds

A. General.

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Borrower may withdraw the proceeds of the Loan to: (a) finance Eligible Expenditures; and (b) pay: (i) the Front-end Fee; and (ii) each Interest Rate Cap or Interest Rate Collar premium; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, and consulting services, Training and Workshop for Part 1 of the Project	2,800,000	100%
(2) Goods, works, non-consulting services, and consulting services, Training and Workshop for Part 2 of the Project	30,800,000	100%
(3) Goods, works, non-consulting services, and consulting services, Incremental Operating Costs, Training and Workshop for Part 3 of the Project	6,300,000	100%
(4) Front-end Fee	100,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(5) Interest Rate Cap or Interest Rate Collar premium	0	Amount due pursuant to Section 4.05 (c) of the General Conditions
TOTAL AMOUNT	40,000,000	

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made:

- (a) for payments made prior to the Signature Date;

- (b) under Category (2) until the POM has been adopted in accordance with the provisions of Section I.F of the Schedule to the Project Agreement and an Annual Work Plan and Budget has been prepared in accordance with the provisions of Section I.G of the Schedule to the Project Agreement; or
 - (c) under Categories (2) and (3) until: (i) the Commitment of Cooperation has been signed by all signatories thereto; (ii) the Steering Committee has been established in accordance with Section I.A.1 of the Schedule to the Project Agreement; and (iii) the KWSB Board includes representatives of its customer basis in accordance with Section I.A.4 of the Schedule to the Project Agreement.
2. The Closing Date is June 30, 2025.

SCHEDULE 3

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”).

Principal Payment Date	Installment Share
From September 1, 2025 to September 1, 2030 included	2.5%
From March 1, 2031 to March 1, 2038 included	3.5%
September 1, 2038	3%
From March 1, 2039 to September 1, 2039 included	2%
From March 1, 2040 to September 1, 2043 included	1.5%
March 1, 2044	1%

APPENDIX

Definitions

1. “Affected Person” means a person or entity who, on account of the execution of the Project and/or an Infrastructure Investment, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; and, “Affected Persons”, means more than one such Affected Person.
2. “Annual Work Plan and Budget” means, individually, one of the annual workplans and budgets for the implementation of the Project reviewed and approved by the Bank, referred to in Section I.E of the Schedule to the Project Agreement; and “Annual Work Plans and Budgets” means, more than one such annual work plan and budget.
3. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
4. “Bank Policies” means, collectively, but only to the extent that they are applicable to the Project activities, the operational policies and procedures OP/BP 4.01 (Environmental Assessment), OP/BP 4.03 (Performance Standards for Private Sector Activities), OP/BP 4.04 (Natural Habitats), OP/BP 4.07 (Water Resources Management), OP/BP 4.09 (Pest Management), OP/BP 4.10 (Indigenous Peoples), OP/BP 4.11 (Physical Cultural Resources), OP/BP 4.12 (Involuntary Resettlement), OP/BP 4.36 (Forests), and OP/BP 4.37 (Safety of Dams) contained in the Bank’s Operational Manual which can be found on the Bank’s website at www.worldbank.org or, in the context of Part 3.2 of the Project, any successor thereto, as well as the Environmental Health and Safety Guidelines as of the date of this Agreement, published under www.ifc.org/ehsguidelines; and “Bank Policy” means one of the Bank Policies, as the context may require.
5. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
6. “Co-financier” means Asian Infrastructure Investment Bank.
7. “Co-financing” means, for purposes of paragraph 16 of the Appendix to the General Conditions, an amount of forty million Dollars (\$40,000,000) to be provided by the Co-financier to assist in financing the Project.

8. “Co-financing Agreement” means the agreement to be entered into between the Borrower and the Co-financier providing for the Co-financing.
9. “Commitment of Cooperation” means the document to be signed between the Government of Sindh, KWSB and the Bank, describing the program of reforms to be carried out by the Government of Sindh to improve water and sanitation services in Karachi City by 2021, 2025 and 2030, some of which are supported under the Project.
10. “Counterpart Funds” means the financing to be provided by the Project Implementing Entity for the Project, pursuant to Section I.C of the Schedule to the Project Agreement.
11. “Environmental Audit Report” or “EA” means the report of the audit carried out for an existing infrastructure or infrastructure under rehabilitation or infrastructure under construction (not financed by the project) that is part of an Infrastructure Investment, in accordance with the provisions of the EMF, which includes an associated management action plan; as such plan may be revised, updated or supplemented in accordance with the provisions of Section I.D.4 of the Schedule to the Project Agreement; and such term includes any annexes, appendices, or schedules to such report and plan.
12. “Environmental Management Framework” or “EMF” means KWSB’s document entitled “Environmental Management Framework – Karachi Water and Sewerage Services Improvement Project” dated May 2019, which sets forth, among other things, an analysis of the baseline conditions, potential environmental impact assessment and mitigation measures and the description of the grievance redress mechanism and public consultation framework; as such framework may be revised, updated or supplemented in accordance with the provisions of Section I.D.4 of the Schedule to the Project Agreement; and such term includes any annexes, appendices, or schedules to such framework.
13. “Environmental and Social Management Plan” or “ESMP” means the instrument to be prepared for an Infrastructure Investment in accordance with the procedures and requirements under the EMF and the SMF, satisfactory to the Bank, which details: (a) the measures to be taken during the implementation and operation of the Infrastructure Investment to avoid, minimize, mitigate or offset adverse environmental impacts, or to reduce them to acceptable levels; and (b) the actions needed to implement these measures, and which may include a Physical Cultural Resources Management Plan if it relates to an activity which triggers the Bank Policy OP/BP 4.11 (Physical Cultural Resources); as such plan may be revised, updated or supplemented in accordance with the provisions of Section I.D.4 of the Schedule to the Project Agreement; and such term includes any annexes, appendices, or schedules to such plan; and “ESMPs” means more than one such ESMP, and collectively, all of them.
14. “Gender Action Plan” means the instrument which may be prepared for the Project, when required under and in accordance with the provisions of the Gender Development Framework; as such plan may be revised, updated or supplemented in accordance with the provisions of Section I.D.4 of the Schedule to the Project Agreement; and such term includes any annexes, appendices, or schedules to such plan; and “Gender Action Plans” means more than one such plan.

15. “Gender Development Framework” means the gender development framework included in the Social Management Framework, which provides, among other things, guidelines to address gender-related issues, mitigation measures to alleviate risks and enhance the benefits, and guidelines for preparation of Gender Action Plans as required under the Gender Development Framework; as such framework may be revised, updated or supplemented in accordance with the provisions of Section I.D.4 of the Schedule to the Project Agreement; and such term includes any annexes, appendices, or schedules to such plan.
16. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for IBRD Financing, Investment Project Financing”, dated December 14, 2018.
17. “Incremental Operating Costs” means the reasonable incremental operating costs of the Project incurred by the PIU for purposes of Project management, implementation, and monitoring and evaluation, on account of office supplies and consumables, utilities, bank charges, communications, mass media and printing services, vehicle rental, operation, maintenance, and insurance, office space rental, building and equipment maintenance, domestic and international travel, lodging, and subsistence allowances, and salaries and salary supplements of contractual and temporary staff, but excluding salaries and salary supplements of members of the Borrower’s or the Project Implementing Entity’s civil service.
18. “Infrastructure Investment” means an investment selected, designed and implemented (or proposed to be selected, designed and implemented) in accordance with Section I.B of the Schedule to the Project Agreement.
19. “Infrastructure Investment ESIA” means the environmental and social impact assessment with respect to a specific Infrastructure Investment, to be carried out pursuant to and in accordance with the provisions of the EMF or the SMF.
20. “Involuntary Resettlement” as the meaning ascribed to it in the Bank Policy OP/BP 4.12 (Involuntary Resettlement).
21. “KWSB” means the Karachi Water & Sewerage Board established pursuant to the Karachi Water & Sewerage Board Act, 1996.
22. “Labor and Working Condition Management Framework” means the labor management framework included in the Social Management Framework which provides among other provisions guidelines to address labour-related issues, mitigation measures to alleviate risks and enhance the benefits, and guidelines for preparation of Labor Management Plans as required; as such framework may be revised, updated or supplemented in accordance with the provisions of Section I.D.4 of the Schedule to the Project Agreement; and such term includes any annexes, appendices, or schedules to such plan.

23. “Labor Management Plan” or “LMP” means the instrument to be prepared for an Infrastructure Investment in accordance with the procedures and requirements under the SMF, satisfactory to the Bank; as such plan may be revised, updated or supplemented in accordance with the provisions of Section I.D.4 of the Schedule to the Project Agreement; and such term includes any annexes, appendices, or schedules to such plan.
24. “P&D” means the Planning and Development Board of the Government of Sindh, or any successor thereto.
25. “PRRP” means the Project risk reducing procedure developed for the Project and acceptable to the Bank, which describes, among other things, a screening mechanism of potential Infrastructure Investments and other provisions to ensure compliance with the Bank Policy OP/BP 4.12 (Involuntary Resettlement) before and during the implementation of the Infrastructure Investment begins, which is included in the Project Operations Manual and in the SMF.
26. “Procurement Regulations” means, for purposes of paragraph 85 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated July 2016, revised November 2017 and August 2018.
27. “Project Implementation Unit” or “PIU” means the unit established within KWSB for the Project and referred to in Section I.A.2(a) of the Schedule to the Project Agreement.
28. “Project Implementing Entity” means the Borrower’s Province of Sindh.
29. “Project Operations Manual” means the manual to be prepared and adopted by the Project Implementing Entity in accordance with the provisions of Section I.F of the Schedule to the Project Agreement as the same may be modified from time to time in accordance with Section I.F.3(b) of the Schedule to the Project Agreement, and such term includes any annexes, appendices, or schedules to such manual..
30. “Province” means a province of Pakistan, which constitutes the first order administrative division of the Borrower’s territory.
31. “Reform Working Group” means the group established by notification No. KG/Dir/PM&EC/AD-II/116(81-KW&SB)/2018/528 dated March 22, 2019.
32. “Resettlement Action Plan” or “RAP” means a resettlement action plan to be prepared for an Infrastructure Investment in accordance with the procedures and requirements of the Resettlement Policy Framework, which includes the principles, procedures, organizational arrangements and budget to implement the resettlement related activities under the Infrastructure Investment, as said resettlement action plan may be revised, updated or supplemented in accordance with the provisions of Section I.D.4 of the Schedule to the Project Agreement; and such term includes any annexes, appendices, or schedules to such plan; and “RAPs” means more than one such RAP, and collectively, all of them.

33. “Resettlement Policy Framework” or RPF” means the resettlement policy framework included in the Social Management Framework, to the extent that it relates to the Project, containing guidelines, procedures, timetables and other specifications for the provision of compensation, rehabilitation and resettlement assistance to Affected Persons; as such framework may be revised, updated or supplemented in accordance with the provisions of Section I.D.4 of the Schedule to the Project Agreement; and such term includes any annexes, appendices, or schedules to such framework.
34. “Safeguard Instruments” means, collectively, the Environmental Management Framework; each Environmental Audit Report and Environmental and Social Management Plan which may be prepared with respect to an Infrastructure Investment in accordance with the provisions of the EMF, if any; the Social Management Framework including its Resettlement Policy Framework, its Labor Management Framework; its Gender Development Framework, and its Stakeholder Participation and Community Engagement Framework; each Infrastructure Investment ESIA, Resettlement Action Plan, Gender Action Plan and Labor Management Plan which may be prepared with respect to an Infrastructure Investment in accordance with the provisions of the SMF, if any; and the Stakeholder Participation and Community Engagement Framework.
35. “Signature Date” means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to “the date of the Loan Agreement” in the General Conditions.
36. “Sindh” means the Borrower’s Province of Sindh.
37. “Social Management Framework” or “SMF” means Project Implementing Entity’s document entitled “Karachi Water and Sewerage Service Improvement Project (KWSSIP), Social Management Framework, Final Report ” dated May 2019, which provides among other provisions, a description of the Project, as well as (i) a comprehensive mechanism for social screening of Infrastructure Investments to assess compliance with the social safeguard related eligibility criteria and to determine the social safeguard instruments to be prepared; (ii) the Resettlement Policy Framework; (iii) management frameworks for gender and vulnerability, labor impacts during construction (including gender based violence and sexual exploitation and abuse), stakeholders engagement and monitoring and evaluation; (iv) a grievance redress mechanism; and (v) institutional requirements and capacity enhancement measures; as such framework may be revised, updated or supplemented in accordance with the provisions of Section I.D.4 of the Schedule to the Project Agreement; and such term includes any annexes, appendices, or schedules to such framework.
38. “Stakeholder Participation and Community Engagement Framework” means the stakeholder participation and community engagement framework included in the Social Management Framework which provides among other provisions guidelines for stakeholder consultation and community engagement; as such framework may be revised, updated or supplemented in accordance with the provisions of Section I.D.4 of the Schedule to the Project Agreement; and such term includes any annexes, appendices, or schedules to such framework.

39. “Steering Committee” means the committee to be established in accordance with Section I.A.1 of the Schedule to the Project Agreement.

40. “Training” means the cost of trainings, seminars and workshops, conferences and study tours, conducted in the territory of the Borrower, considered to be reasonable by the Bank and included in an Annual Work Plan and Budget, including: (i) the fees of training institutions and courses; (ii) domestic travel costs, lodging costs, and subsistence/per diem allowances both for trainers and trainees; (iii) the rental of training facilities; and (iv) preparation, purchase or reproduction of training materials.