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CREDIT NUMBER 4358 - PAK

# Financing Agreement

(Sindh Water Sector Improvement Phase-I Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 5, 2007

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**CREDIT NUMBER 4358 - PAK**

**FINANCING AGREEMENT**

AGREEMENT dated October 5, 2007, between ISLAMIC REPUBLIC OF PAKISTAN acting by its President (the "Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION (the "Association"). The Recipient and the Association hereby agree as follows:

**ARTICLE I - GENERAL CONDITIONS; DEFINITIONS**

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

**ARTICLE II - FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to one hundred million one hundred thousand Special Drawing Rights (SDR 100,100,000) ("Credit") to assist in financing the project described in Schedule 1 to this Agreement ("Project").
- 2.02. The Recipient may withdraw the proceeds of the Credit in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollar.

**ARTICLE III - PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

**ARTICLE IV - REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension consists of the following:  
  
The Ordinance has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SIDA, FOs or other Implementing Agencies to perform any of their obligations under the Project.
- 4.02. The Additional Event of Acceleration consists of the following:  
  
The event specified in Section 4.01 of this Agreement occurs.

**ARTICLE V - EFFECTIVENESS; TERMINATION**

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of signing of this Agreement.
- 5.02. For purposes of Section 8.05(b) of the General Conditions, the date on which the Agreement shall terminate is twenty (20) years after the date of signing this Agreement.

**ARTICLE VI - REPRESENTATIVE; ADDRESSES**

- 6.01. The Recipient's Representative is the Secretary to the Government of Pakistan, Economic Affairs Division, Ministry of Economic Affairs and Statistics, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer in that Division.

6.02. The Recipient's Address is:

The Secretary to the Government of Pakistan  
Economic Affairs Division  
Ministry of Economic Affairs and Statistics  
Islamabad, Pakistan

6.03. The Association's Address is:

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

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

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

ISLAMIC REPUBLIC OF PAKISTAN

By

/s/ M. Akram Malik  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Yusupha B. Crookes  
Country Director  
Pakistan

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to improve the efficiency and effectiveness of irrigation water distribution in Ghotki AWB, Nara AWB and Left Bank AWB, all in the Province of Sindh, particularly with respect to measures of reliability, equity and user satisfaction.

The Project consists of the following parts:

#### **Part A: Community Development and Capacity Building**

1. Enhancing the capacity of SIDA for the management of water resources and irrigation and drainage services in Sindh, including: (a) developing rules, procedures and guidelines for water resource, irrigation and drainage management; (b) clarification and strengthening of procurement, financial management and administrative rules and procedures; (c) developing a code of conduct, and staff rules and procedures for recruitment, administrative powers and decision making processes; (d) developing technical standards and design specifications for various kinds of infrastructure; (e) developing a water resource management system for the improvement of the management of water resources and operation of canals, drainage and flood management systems; (f) developing environment guidelines, rules and procedures to integrate environment issues in planning, design and operation of the water resource management system and strengthening of the SIDA environment management unit; (g) developing operating and maintenance procedures, standards and yardsticks; (h) dissemination of information to the public about the operation of canals, flood warning and management operations through the development of a website and broadcasting information on local radios; (i) provision of training and technical advisory services in social mobilization and FO capacity building to staff of SIDA; and (j) rehabilitation of SIDA offices.
2. Supporting AWBs in improving irrigation and drainage service delivery to FOs, and enhancing the capacity of FOs to provide crucial services to water users and to participate in the selection, planning and implementation of Project works, all through the provision of equipment, office space, training and technical advisory services.

#### **Part B: Rehabilitation and Improvement of Irrigation and Drainage Systems**

1. Rehabilitating and improving the main and branch canals of the Ghotki Canal System, Nara Canal System and Fullei Canal System, through, *inter alia*, rehabilitation of the canals and hydraulic systems, introducing a system of water measurements and accounting, installation of a data communication network,

development of a database and management information system, and establishment of modern control rooms for operation and management of the canals at the AWBs and SIDA.

2. Rehabilitating and improving about 173 distributaries and minor canals through, *inter alia*, (a) strengthening the capacity of FOs to participate in the rehabilitation and improvement process; (b) preparation of design reports outlining technical solutions, design parameters, cost estimates, and environmental and social impacts of the rehabilitation and improvement works; (c) carrying out of a program of civil works including: (i) de-silting and creation of proper sections of the distributaries; (ii) reconstruction of channel banks and inspection paths, and strengthening of the non-inspection path bank; (iii) reconstruction of outlets; (iv) repair and reconstruction of head and regulating structures in the distributaries; (v) construction of measuring sections, buffalo walls and washing ghats where necessary; (vi) rehabilitation and construction of foot and road bridges, and any other works identified by FOs; (vii) plantation of trees on land available along the distributaries; (viii) rehabilitation/construction of FO offices and payment of operating costs to FOs; and (ix) lining of selected distributaries with geo-membrane where justified without construction of diversion channels for operation during construction.
3. Rehabilitating and improving the drainage system to allow for safe disposal of drainage effluent in areas managed by FOs, with specific interventions to be identified by SIDA in consultation with FOs.
4. Carrying out of surveys and investigations, preparation of detailed designs and design reports for Sub-Projects for Distributaries and Minor Canals, provision of consulting services for consultations with FOs in identifying and prioritizing civil works, preparation of detailed designs, bidding documents, procurement of works, and construction supervision for all works included in sub-components 1 to 3 of this Part B.

Part C: Management Plans for Major Irrigation and Drainage Infrastructure

1. (a) Carrying out of feasibility studies and preparation of designs for rehabilitation and remedial works for the Guddu Barrage on priority basis; (b) assisting in the review of the on-going feasibility studies for rehabilitation of the Sukhar Barrage and preparation of detailed designs and identification of priority works; and (c) inspection and assessment of the state of the Kotri Barrage, and carrying out studies for remedial works, if any.
2. (a) Carrying out of detailed studies and preparation of a regional master plan in consultation with stakeholders for addressing flooding issues and providing proper drainage to the area on the left bank of the Indus River,

including remedial measures for any outstanding deficiencies in the Left Bank Outfall Drainage system, and measures for retention and/or safe disposal of storm and flood water.

- (b) Preparation of a plan, linked to the regional master plan, for the rehabilitation and improvement of the delta area, wetlands and the coastal zone taking into account environmental importance of the region and its economic potential, and drawing upon international experience.
- (c) Preparation of feasibility studies and detailed designs of priority work identified under Parts C.2(a) and (b) above.

Part D: Monitoring and Evaluation of Project Impact, Environment Management Framework and Social Impact Management Framework

Provision of support for the monitoring of Project implementation, including monitoring and evaluation of: (i) Project performance and impact; (ii) implementation of the Environment Management Framework and the Social Impact Management Framework; and (iii) specific social and environmental management plans for Sub-Projects for Distributaries and Minor Canals.

Part E: Project Coordination, Monitoring, Technical Assistance and Training

1. Provision of support to PCMU and PMCA for the implementation and coordination of Project related activities, through the provision of training, technical advisory services, equipment, vehicles and incremental operating costs and the carrying out of minor office repairs.
2. Provision of support for the preparation of future projects in the water sector in Sindh including carrying out strategic studies and identifying pilot projects.
3. Provision of technical assistance and training in, inter alia, engineering design, contract administration, construction supervision, procurement, financial management, legal issues, irrigation and drainage and agricultural development, to FOs and other Implementing Agencies, and provision of assistance for carrying out strategic studies and pilot projects in agreement with the Association.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Subsidiary Financing**

##### **A. Subsidiary Arrangements**

To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Credit available to the Project Implementing Entity in accordance with the Recipient's on-lending policies, and under the same terms and conditions as shall have been received from the Association.

##### **B. Anti-Corruption**

The Recipient 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 Recipient shall 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 the indicators agreed with the Association. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later than one month after the end of the period covered by such report.
2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than 6 (six) months after the Closing Date.

##### **B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish, or shall cause to be prepared and furnished, to 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 Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one Fiscal Year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

**Section III. Procurement**

All goods, works and services required for the Project Implementing Entity in carrying out the Project and to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Section III of the Schedule to the Project Agreement.

**Section IV. Withdrawal of the Proceeds of the Credit**

**A. General**

1. The Recipient may withdraw the proceeds of the Credit in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Credit (“Category”), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Credit Allocated (Expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed</b>
(1) Works		
(a) Under Part B.1 of the Project	36,640,000	80%
(b) Under Part B.2 of the Project	21,320,000	80%
(c) Under Part B. 3 of the Project	4,000,000	80%
(d) Under Part A and E of the Project	670,000	100%
(2) Goods	1,000,000	100%
(3) Consultants' Services		100%
(a) Under Part B.4 of the Project	6,000,000	
(b) Under Part D of the Project	2,670,000	
(c) Under Part C.1 of the Project	3,330,000	
(d) Under Part C.2 of the Project	4,000,000	
(e) Under Part E of the Project	3,330,000	
(4) Training	1,340,000	100%
(5) Incremental Operating Costs*	6,670,000	100%
(6) Unallocated	9,130,000	
<b>TOTAL AMOUNT</b>	<b>100,100,000</b>	

\*For purposes of this Schedule, the term "Incremental Operating Costs" means the salaries and allowances and other emoluments of SIDA, AWB and PCMU staff recruited in accordance with a staffing plan acceptable to the Association for the purposes of the

Project, the operating and maintenance and/or rental costs of vehicles, equipment and office premises acquired under and/or used in the carrying out of the Project, bank charges, and the costs of advertising in the media for bids and other purposes of the Project, excluding salaries of civil servants of the Recipient and Sindh.

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$5,000,000 equivalent may be made for payments made prior to this date but on or after January 1, 2007, for Eligible Expenditures.
2. The Closing Date is April 30, 2013.

**SCHEDULE 3**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each March 15 and September 15:	
commencing March 15, 2018 to and including September 15, 2027	1.25%
commencing March 15, 2028 to and including September 15, 2042	2.5%

\* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

## APPENDIX

### Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “AWB” means an Area Water Board established at the level of a main canal and operating in accordance with the Ordinance.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004, and revised in October 2006.
5. “Environment Management Framework” means the Project Implementing Entity’s Environment Management Framework dated November 2006, satisfactory to the Association, including any amendment made to such document from time to time with the Association’s approval that contains measures to address any adverse environmental impacts arising from carrying out the Project, which plan includes a framework for pest management and a framework for the protection of natural habitats.
6. “Fiscal Year” means the Recipient’s and the Project Implementing Entity’s fiscal year, beginning on July 1 of a calendar year and ending on June 30 of the following calendar year.
7. “FO” means a Farmer’s Organization, formed or to be formed at the level of a distributary/minor canal and registered under the Ordinance which is participating in the implementation of the Project.
8. “Fullei Canal System” means a canal system serving part of the Left Bank AWB.
9. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, (as amended through October 15, 2006).
10. “Ghotki AWB” means the Area Water Board responsible for water resource management in the area commanded by Ghotki canal in the Province of Sindh, which is participating in the implementation of the Project.
11. “Ghotki Canal System” means a canal system serving part of the Ghotki AWB.

12. “Guddu Barrage” means the first major structure on the Indus River as it enters the Province of Sindh, which diverts water to canals.
13. “IDMTA” means an Irrigation and Drainage Management Transfer Agreements to be entered into between AWBs and an FO for purposes of implementing the Project.
14. “Implementing Agencies” means SIDA, FOs, AWBs, PCMU or any other entities responsible for implementing any activities under the Project.
15. “IPD” means the Irrigation and Power Department of the Province of Sindh, or any successor thereto.
16. “Kotri Barrage” means the second major structure on the Indus River as it enters the Province of Sindh, which diverts water to canals.
17. “Left Bank AWB” means the Area Water Board responsible for water resource management in the area commanded by Fuleli and Akramwah canals in the Province of Sindh, which is participating in the implementation of the Project.
18. “Left Bank Outfall Drainage” means the drainage system running through Sindh consisting of a spinal drain and a tidal link designed to convey saline drainage water from the spinal drain to the Arabian Sea.
19. “Nara AWB” means the Area Water Board responsible for water resource management in the Nara canal in the Province of Sindh, which is participating in the implementation of the Project.
20. “Ordinance” means the Sindh Water Management Ordinance, 2002 (No. XL of 2002), as may be amended from time to time.
21. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004, and revised in October 2006.
22. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated December 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
23. “Project Implementing Entity” means the Province of Sindh.
24. “Project Steering Committee” means the committee established in Sindh for the provision of overall policy and strategic guidance under the Project, as referred to in paragraph 7 of Section I of the Schedule to the Project Agreement.

25. “Planning and Development Department” means the Planning and Development Department of the Province of Sindh, or any successor thereto.
26. “PCMU” means the Project Coordination and Monitoring Unit established and operating within the Planning and Development Department referred to in paragraph A.5 of Section I of the Schedule to the Project Agreement.
27. “PMCA” means the Project Management Consultants/Procurement Agent referred to in paragraph A.6 of Section I of the Schedule to the Project Agreement to be based in PCMU for purposes of implementing the Project.
28. “PIP” means the Project Implementing Entity’s Project Implementation Plan, dated December 2006, satisfactory to the Association, including any amendments made to such plan from time to time with the Association’s approval, setting forth or referring to the policies, principles and procedures for carrying out the Project, including performance indicators and monitoring and evaluation guidelines, administrative, accounting and financial procedures, procurement and disbursement guidelines, an environment framework and eligibility criteria, guidelines and procedures for implementing Sub-Projects for Distributaries and Minor Canals.
29. “SIDA” means the Sindh Irrigation and Drainage Authority, an autonomous agency established and existing under the Ordinance.
30. “Sindh” means the Recipient’s Province of Sindh.
31. “Social Impact Management Framework” means the Project Implementing Entity’s Social Impact Management Framework dated November 2006, satisfactory to the Association, including any amendment made to such document from time to time with the Association’s approval, that contains measures to address any adverse social impacts arising from carrying out the Project, which plan includes a plan for resettlement action framework and a framework for the protection of cultural property.
32. “Sub-Projects for Distributaries and Minor Canals” means projects or schemes for the rehabilitation and improvement of distributaries and minor canals to be carried out by FO’s with the technical assistance of SIDA and AWBs under Part B.2 of the Project, which meet the eligibility criteria set out in the PIP to receive financing under the Project.
33. “Sukkur Barrage” means the second major structure on the Indus River as it enters the Province of Sindh, which diverts water to canals.
34. “Transparency International” means Transparency International Pakistan, a non-governmental organization registered and operating under the Pakistan Trust Act

1882, with which the Project Implementing Entity has entered into a memorandum of understanding for purposes of monitoring the procurement processes under the Project.