

CONFORMED COPY

CREDIT NUMBER 2999 PAK

Development Credit Agreement

(National Drainage Program Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 16, 1997

CREDIT NUMBER 2999 PAK

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 16, 1997, between ISLAMIC REPUBLIC OF PAKISTAN acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Project will be carried out by the Water and Power Development Authority of Pakistan (WAPDA) and by the Province of Punjab, the Province of Sindh, the North West Frontier Province, and the Province of Balochistan (the Provinces) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to WAPDA and the Provinces the proceeds of the Credit as provided in this Agreement; and

(C) the Borrower has contracted from the Asian Development Bank (ADB) a loan (the ADB Loan) in an amount equivalent to Special Drawing Rights 93,674,000 and from the Overseas Economic Cooperation Fund (OECF) a loan (the OECF Loan) in an amount of Japanese Yen 10,832,000,000, all to assist in financing the Project on the terms and conditions set forth, respectively, in an agreement (the ADB Loan Agreement) entered into between the Borrower and ADB and an agreement (the OECF Loan Agreement) entered into between the Borrower and OECF;

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this

Agreement and in the Project Agreement of even date herewith among the Association, WAPDA and the Provinces;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

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

- (c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and established the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be cancelled."

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

- (a) "AEARs" mean the Annual Environmental Audit Reports on the Project referred to in paragraph 10 (b) of Schedule 4 to the Project Agreement;
- (b) "AWB" means an Area Water Board to be established under the Project;
- (c) "Balochistan" means the Province of Balochistan, a political subdivision of the Borrower;
- (d) "Balochistan's Special Account" means the account which may be opened and maintained for Balochistan pursuant to the provisions of Section 2.02(b) of this Agreement.

- (e) "BIDA" means the Balochistan Irrigation and Drainage Authority to be established under the Project;
- (f) "Borrower's Special Account" means the account which may be opened and maintained for the Borrower pursuant to the provisions of Section 2.02(b) of this Agreement;
- (g) "Drainage Sector Environmental Assessment Study" means the document entitled as such and furnished by the Borrower to the Association by its letter dated January 11, 1996;
- (h) "EIA" means an Environmental Impact Assessment;
- (i) "FIDA" means the Frontier Irrigation and Drainage Authority of NWFP, as hereinafter defined, to be established under the Project;
- (j) "Fiscal Year" or "FY" means the Borrower's, WAPDA's or the Provinces' fiscal year, as the case may be, covering the period July 1 through June 30;
- (k) "FO" means a Farmer Organization to be established under the Project;
- (l) "Framework for Land Acquisition and Resettlement" means the document entitled as such and furnished by the Borrower to the Association by its letter dated July 28, 1996, satisfactory to the Association, as such document may be amended from time to time;
- (m) "Investment Project" means a specific development project which is to be carried out under Part C of the Project;
- (n) "National Drainage Program" or "NDP" means the Borrower's program for the period 1995 through 2020;
- (o) "NDP Coordination Cell" means the cell established by WAPDA, inter alia, for the purposes of coordinating, monitoring and evaluating the implementation of the Project;
- (p) "NDP Engineering Design and Supervision Consultants" mean the engineering design and supervision consultants to be appointed for purposes of the Project pursuant to the provisions of Section II of Schedule 3 to this Agreement;
- (q) "NWFP" means the North West Frontier Province, a political subdivision of the Borrower;
- (r) "NWFP's Special Account" means the account which may be opened and maintained for NWFP pursuant to the provisions of Section 2.02(b) of this Agreement.
- (s) "O&M" means operation and maintenance;
- (t) "PAD-OFWM" means the On-Farm Water Management Directorate of the Provincial Agriculture Department of a Province; and "PAD-OFWMs" mean the PAD-OFWMs of all Provinces collectively;
- (u) "Participating Agency" means WAPDA or any PIDA, both as hereinafter defined, or AWB or FO or PAD-OFWM participating in the Project; and "Participating Agencies" mean all such agencies collectively;
- (v) "Participation Agreement" means the participation agreement to be entered into between a Province and any PIDA or AWB or FO participating in the Project, pursuant to the provisions of Section 2.05 of the Project Agreement; and "Participation Agreements" mean all such participation agreements collectively;
- (w) "PID" means the Provincial Irrigation Department of a Province; and "PIDs" mean the Provincial Irrigation Departments of all Provinces collectively;
- (x) "PIDA" means the Provincial Irrigation and Drainage Authority of a Province, being BIDA or FIDA or PuIDA, as hereinafter defined, or SIDA, as hereinafter

defined, as the case may be; and "PIDAs" mean BIDA, FIDA, PuIDA and SIDA collectively;

(y) "Project Agreement" means the agreement among the Association, the Bank, WAPDA and the Provinces of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(z) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated August 30, 1995 and September 24, 1995 between the Borrower and the Association;

(aa) "Provinces" mean Punjab, as hereinafter defined, Sindh, as hereinafter defined, NWFP and Balochistan collectively, and "Province" means each and any of the Provinces individually;

(bb) "PuIDA" means the Punjab Irrigation and Drainage Authority to be established under the Project;

(cc) "Punjab" means the Province of Punjab, a political subdivision of the Borrower;

(dd) "Punjab's Special Account" means the account which may be opened and maintained for Punjab pursuant to the provisions of Section 2.02(b) of this Agreement;

(ee) "RAP" means a Resettlement Action Plan;

(ff) "Rs" or "rupees" mean the currency of the Borrower;

(gg) "SIDA" means the Sindh Irrigation and Drainage Authority to be established under the Project;

(hh) "Sindh" means the Province of Sindh, a political subdivision of the Borrower;

(ii) "Sindh's Special Account" means the account which may be opened and maintained for Sindh pursuant to the provisions of Section 2.02(b) of this Agreement.

(jj) "Special Accounts" mean the accounts referred to in Section 2.02 (b) of this Agreement;

(kk) "WAPDA" means the Borrower's Water and Power Development Authority, established and existing under the WAPDA Act, as hereinafter defined, or any successor thereto;

(ll) "WAPDA Act" means the Borrower's Water and Power Development Authority Act, 1958, as amended from time to time;

(mm) "WAPDA's Special Account A" means the account which may be opened and maintained for WAPDA's General Manager (Water-Finance) pursuant to the provisions of Section 2.02(b) of this Agreement; and

(nn) "WAPDA's Special Account B" means the account which may be opened and maintained for WAPDA's General Manager (Water-South) pursuant to the provisions of Section 2.02(b) of this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one hundred ninety-eight million six hundred thousand Special Drawing Rights (SDR 198,600,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of

the reasonable cost of goods and services and incremental staff and operating costs required for programs of activities to be carried out under the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, for itself and for WAPDA's General Manager (Water-Finance), WAPDA's General Manager (Water-South), Punjab, Sindh, NWFP and Balochistan, respectively, open and maintain in dollars special deposit accounts in the National Bank of Pakistan on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 4 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be December 31, 2004 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 2007 and ending May 15, 2032. Each installment to and including the installment payable on May 15, 2017 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources, and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to

commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

(i) shall carry out its activities under Part B.2 of the Project as well as its activities relating to the coordination and supervision of the Project, with due diligence and efficiency and in conformity with appropriate administrative, financial, irrigation, drainage, environmental and resettlement practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such activities; and

(ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause WAPDA and the Provinces to perform all their obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable WAPDA and the Provinces to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall:

(i) retain amounts out of the proceeds of the Credit allocated from time to time to Categories (2) and (4) of the table set forth in paragraph 1 of Schedule 1 to this Agreement for the purposes of its activities under Part B.2 of the Project and its activities relating to the coordination and supervision of the Project; and

(ii) make available to WAPDA and the Provinces the proceeds of the Credit allocated from time to time to Categories (1), (2), (3) and (4) of the table set forth in paragraph 1 of Schedule 1 to this Agreement for the purposes of their respective activities under Parts A, B and C of the Project.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

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

Section 3.04. (a) The Borrower shall, not later than April 30 of each Fiscal Year of Project implementation or such later date as the Association may agree, beginning Fiscal Year 96/97, furnish to the Association for its approval, proposals for amounts to be allocated out of the proceeds of the Credit to Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement for financing any new programs of activities to be commenced under the Project in the next following Fiscal Year of Project implementation.

(b) Except as the Borrower and the Association shall otherwise agree, the Association shall not approve any proposals furnished to it under paragraph (a) above, unless and until:

(i) the Borrower shall have, with the participation of WAPDA and the Provinces, prepared and furnished to the Association:

(aa) without limitation upon the provisions of Article IX of the General Conditions and in form and substance satisfactory to the Association, a consolidated annual progress report on the carrying out by the Borrower, WAPDA, the Provinces and the PIDAs, AWBs and FOs participating in the Project of their respective programs of activities which shall have been previously commenced under the Project;

(bb) a Three-Year Rolling Public Sector Development Program for the Project, satisfactory to the Association, for the three next following Fiscal Years of Project implementation;

(cc) a portfolio action plan for the Project, satisfactory to the Association, for the next following Fiscal Year of Project implementation; and

(dd) a three-year rolling business plan for the Project, satisfactory to the Association, for the three next following Fiscal Years of Project implementation; and

(ii) the Association shall have been satisfied with the progress made in the carrying out:

(aa) by the Borrower, WAPDA, the Provinces and the PIDAs, AWBs and FOs participating in the Project of their respective programs of activities, which shall have been previously commenced under the Project; and

(bb) by the Borrower of its current portfolio action plan and three-year rolling business plan for the Project satisfactory to the Association.

Section 3.05. Without limiting the generality of Article IX of the General Conditions, the Borrower shall furnish to the Association, not later than thirty (30) days after the end of each quarter and in form and substance satisfactory to the Association, a consolidated progress report on the carrying out by the Borrower, WAPDA, the Provinces and the PIDAs, AWBs and FOs participating in the Project of their respective programs of activities under the Project during such quarter.

Section 3.06. The Borrower shall, with the participation of WAPDA and the Provinces:

(a) maintain policies and procedures adequate to enable it to monitor and

evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by December 31, 2000, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

Section 3.07. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall with the participation of WAPDA and the Provinces:

(a) prepare on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.08. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall, with the participation of WAPDA and the Provinces, prepare and furnish to the Association, not later than three (3) years after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a report, of such scope and in such detail as the Association shall reasonably request, on the continued achievement of the Project's objectives and its impact on the drainage and irrigation sector.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out any activities under the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

(a) WAPDA or any Province shall have failed to perform any of their respective obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that WAPDA or any Province will be able to perform their respective obligations under the Project Agreement.

(c) The WAPDA Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of WAPDA to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of WAPDA or for the suspension of its operations.

(e) Any of the laws for the establishment and operation of PIDAs, AWBs and FOs shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of any of the PIDAs, AWBs and FOs participating in the Project to perform their obligations under the Participation Agreements.

(f) The Provinces or any other authorities having jurisdiction shall have taken any action for the dissolution or disestablishment of any PIDAs, AWBs or FOs participating in the Project or for the suspension of their operations.

(g) (i) Subject to subparagraph (ii) of this paragraph:

(A) The right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

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

(b) the events specified in paragraphs (c), (d), (e) and (f) of Section 5.01 of this Agreement shall occur; and

(c) any event specified in paragraph (g) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (g) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that all conditions precedent to the effectiveness of the OECF Loan Agreement and of the ADB Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Project Agreement has been duly authorized or ratified by WAPDA and the Provinces, and is legally binding upon WAPDA and the Provinces in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. The provisions of paragraph (a) of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

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

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

For the Borrower:

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

Cable address:

Telex:

ECONOMIC
Islamabad

ECDIV-05-634

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Agha Ghazanfar

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Robert Drysdale

Acting Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Expenditures in respect of institutional reforms to be carried out under Part A of the Project for:		Up to the amount in the aggregate allocated to each sub-Category below for institu- tional reforms to be commenced in FY 97/98, and, thereafter such amount as may be allocated by the

			Association from time to time to each such sub-Category
(a)	Equipment and vehicles	350,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally
(b)	Consultants' Services and training	700,000	100%
(c)	Incremental staff and operating costs	350,000	90%
(2)	Expenditures in respect of research and sector planning to be carried out under Part B of the Project for:		Up to the amount in the aggregate allocated to each sub-Category below for research and sector planning to be commenced in FY 97/98, and, thereafter, such amount as may be allocated by the Association from time to time to each such sub-Category
(a)	Equipment and vehicles	140,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally
(b)	Consultants' services and training	2,090,000	100%
(c)	Incremental staff and operating costs	350,000	90%
(3)	Expenditures in respect of Investment Projects to		Up to the amount in the aggregate allocated to each sub-Category

<p>be carried out under Part C of the Project for:</p>			<p>below for Investment Projects to be commenced in FY 97/98, and, thereafter, such amount as may be allocated by the Association from time to time to each such sub-Category</p>
<p>(a) Civil works</p>	<p>27,860,000</p>		<p>90%</p>
<p>(b) Equipment and vehicles</p>	<p>560,000</p>	<p>foreign</p>	<p>100% of expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally</p>
<p>(c) Consultants' services and training</p>	<p>13,930,000</p>		<p>100%</p>
<p>(d) Incremental staff and operating costs</p>	<p>700,000</p>		<p>90%</p>
<p>(4) Expenditures in respect of Project co-ordination and supervision for:</p>			<p>Up to the amount in the aggregate allocated to each sub-Category below for Project coordination and supervision to be commenced in FY 97/98, and thereafter, such amount as may be allocated by the Association from time to time to each such sub-</p>
<p>(a) Equipment and vehicles</p>	<p>350,000</p>		<p>100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally</p>
<p>(b) Consultants' services and training</p>	<p>700,000</p>		<p>100%</p>

(c)	Incremental staff and operating costs	700,000	90%
(5)	Refunding of Project Preparation Advance	2,090,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(6)	Unallocated	147,730,000	
	TOTAL	198,600,000	=====

2. For the purposes of this Schedule:

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

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

(c) the term "incremental staff and operating costs" means the salaries and allowances of staff appointed to positions created in departments and agencies of the Borrower and the Provinces and in the Participating Agencies on or after October 1, 1995 and engaged on a full-time basis for the purposes of implementation of the Project, and the operating costs of equipment and vehicles procured under, and office buildings leased for purposes of, the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) from Category (1) in respect of payments made for expenditures for any new institutional reform program to be carried out under Part A of the Project, or from Category (2) in respect of payments made for expenditures for any new research or sector planning program to be carried out under Part B of the Project, or from Category (4) in respect of payments made for expenditures for any new program of Project coordination and supervision activities, unless such program or activities have been approved by the Association pursuant to the provisions of Section 2.06 (a) of the Project Agreement and the Participation Agency proposing to carry out such program or activities has furnished evidence to the Association of its compliance with the relevant eligibility criteria pursuant to the provisions of Section 2.04 of the Project Agreement;

(b) from Category (3) in respect of payments made for expenditures for any new Investment Project to be carried out under Part C of the Project, unless it has been approved, or withdrawals in respect thereof have been approved, in accordance with, and subject to the provisions of, Schedule 3 to the Project Agreement and the Participating Agency proposing to carry out such Investment Project has furnished evidence to the Association of its compliance with the relevant eligibility criteria pursuant to the provisions of Section 2.04 of the Project Agreement;

(c) from Category (3) in respect of payments made for expenditures for any new contract to be awarded for any ongoing Investment Project under Part C of the Project, unless the Participating Agency carrying out such Investment Project and proposing to award such contract has furnished evidence to the Association of its compliance with the relevant eligibility criteria pursuant to the provisions of Section 2.04 of the Project Agreement;

(d) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDRs 19,850,000 be made out of the proceeds of the Credit in respect of Categories (1) through (4) on account of payments made for expenditures before that

date but after April 30, 1996; and

(e) in respect of payments made for expenditures for goods and services supplied under a contract which any national or international financing institution or agency other than the Association shall have financed or agreed to finance.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for goods costing less than \$300,000 equivalent, under contracts for works costing less than \$5,000,000 equivalent, under contracts for consultants' services costing less than \$100,000 equivalent, in the case of firms, and \$50,000 equivalent, in the case of individuals, for training, and for incremental staff and operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower and the Provinces in implementing the first phase of the National Drainage Program, which is designed to restore environmentally-sound irrigated agriculture, inter alia, through the minimization of saline drainable surplus and the eventual evacuation of all saline drainable surplus to the sea, and to that end: (a) to promote the carrying out of policy and institutional reforms in the water sector; (b) to strengthen drainage and irrigation research and sector planning capabilities; and (c) to finance investments in drainage and irrigation infrastructure.

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

Part A: Drainage and Irrigation Institutional Reforms

1. Carrying out of strategic reorientation, streamlining and capacity-building of WAPDA's Water Wing through the provision, inter alia, of technical assistance, training, equipment, vehicles and incremental staff.

2. Carrying out of drainage and irrigation decentralization and management transfer activities in the Provinces, including: (a) the restructuring of PIDs resulting in the establishment of autonomous PIDAs, AWBs (initially on a pilot basis) and FOs, and the transfer to them of management of drainage and irrigation services; and (b) the strengthening of (i) the newly-established PIDAs, AWBs and FOs, and (ii) PAD-OFWMs, all through the provision, inter alia, of technical assistance, training, equipment, vehicles and incremental staff.

Part B: Drainage and Irrigation Research and Sector Planning

1. Carrying out of: (a) research programs to strengthen the technical foundations of drainage and irrigation systems; and (b) activities to complement such and other research programs, including the preparation of proposals for new research programs, monitoring of progress and dissemination of findings.

2. Carrying out of: (a) policy improvement studies; (b) sector planning studies; and (c) feasibility studies for future projects.

Part C: Drainage and Irrigation Infrastructure Investment Projects

Carrying out of specific development projects by the Participating Agencies for: (i) construction of new, and rehabilitation, remodeling and/or modernization of existing, surface drains, including cross drainage facilities and interceptor drains, and of facilities for keeping storm water out of, and its disposal from, drainage areas; (ii) rehabilitation of existing, and/or installation of new, saline groundwater tubewells; (iii) improvement of watercourses in saline groundwater areas; (iv) installation of new, and rehabilitation of existing, tile drains; (v) construction of new, and rehabilitation of existing, subdrains and on-farm drains, and transfer of these to beneficiaries; (vi) transfer of existing fresh groundwater tubewells to, and where necessary, their replacement by, the private sector, and installation of new

fresh groundwater tubewells by the private sector; (vii) modernization of canal commands through the installation of communication and control systems; (viii) rehabilitation, improvement and remodeling of irrigation systems; and (ix) operation and maintenance of drainage facilities, and maintenance of irrigation facilities, all through a system of performance contracts.

* * *

The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$300,000 equivalent or more each; and contracts for works shall be grouped in bid packages estimated to cost \$5,000,000 equivalent or more each.

(c) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

(d) Dispute Review Board

Each contract for works estimated to cost \$50,000,000 equivalent or more shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.12 of the Guidelines.

(e) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost less than \$300,000 equivalent per contract and

\$2,400,000 equivalent or less in the aggregate, and works, including borderline services, estimated to cost less than \$5,000,000 equivalent per contract and \$66,600,000 equivalent or less in the aggregate, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Prequalification

Bidders for works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract and \$400,000 equivalent or less in the aggregate, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Community Participation

Works which shall be carried out using labor and/or materials provided by beneficiary groups and costing \$17,300,000 equivalent or less in the aggregate may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, for each program of activities to be carried out under Parts A and B of the Project or for each Investment Project to be carried out under Part C of the Project, the proposed procurement plan for such program or Investment Project, as the case may be, shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plans as shall have been approved by the Bank, and the provisions of said paragraph 1.

2. Prior Review

With respect to: (a) each contract proposed to be awarded in accordance with the procedures referred to in Part B.1 of this Schedule; (b) the first contract for goods and the first contract for works, in each case other than a contract falling under (c) or (d) below, proposed to be awarded by each Participating Agency in accordance with the procedures referred to in Part C.1 of this Schedule; (c) each O&M, turnkey or supply-and-erect contract proposed to be awarded in accordance with the procedures referred to in Part C.1 of this Schedule; and (d) each contract for borderline services, including geographical information systems (GIS) and aerial and satellite mapping proposed to be awarded in accordance with the procedures referred to in Part C.1 of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the first of such contracts proposed to be awarded by each Participating Agency, (b) the terms of reference for such contracts, (c) single-source selection of consulting firms, (d) assignments of a critical nature, as reasonably determined by the Association, (e) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (f) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to the Development Credit Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to the Development Credit Agreement;

(c) the term "Authorized Allocation" means, with respect to the Borrower's Special Account, an amount equivalent to \$100,000 to be withdrawn from the Credit Account and deposited into the Borrower's Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount of \$50,000 until the aggregate amount withdrawn from the Credit Account and deposited into the Borrower's Special Account shall be equal to or exceed the equivalent of \$200,000;

(d) the term "Authorized Allocation" means, with respect to WAPDA's Special Account A, an amount equivalent to \$2,000,000 to be withdrawn from the Credit Account and deposited into WAPDA's Special Account A pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount of \$1,000,000 until the aggregate amount of withdrawals from the Credit Account and deposited into WAPDA's Special Account A shall be equal to or exceed the equivalent of \$4,000,000;

(e) the term "Authorized Allocation" means, with respect to WAPDA's Special Account B, an amount equivalent to \$5,000,000 to be withdrawn from the Credit Account and deposited into WAPDA's Special Account B pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount of \$2,500,000 until the aggregate amount withdrawn from the Credit Account and deposited into WAPDA's Special Account B shall be equal to or exceed the equivalent of \$10,000,000;

(f) the term "Authorized Allocation" means, with respect to Punjab's Special Account, an amount equivalent to \$2,000,000 to be withdrawn from the Credit Account and deposited into Punjab's Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount of \$1,000,000 until the aggregate amount withdrawn from the Credit Account and deposited into Punjab's Special Account shall be equal to or exceed the equivalent of \$4,000,000;

(g) the term "Authorized Allocation" means, with respect to Sindh's Special Account, an amount equivalent to \$5,000,000 to be withdrawn from the Credit Account and deposited into Sindh's Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount of \$2,500,000 until the aggregate

amount withdrawn from the Credit Account and deposited into Sindh's Special Account shall be equal to or exceed the equivalent of \$10,000,000;

(h) the term "Authorized Allocation" means, with respect to NWFP's Special Account, an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into NWFP's Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount of \$500,000 until the aggregate amount withdrawn from the Credit Account and deposited into NWFP's Special Account shall be equal to or exceed the equivalent of \$2,000,000; and

(i) the term "Authorized Allocation" means, with respect to Balochistan's Special Account, an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into Balochistan's Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount of \$250,000 until the aggregate amount withdrawn from the Credit Account and deposited into Balochistan's Special Account shall be equal to or exceed the equivalent of \$1,000,000.

2. Payments out of the Special Accounts shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals of the relevant Authorized Allocation and subsequent withdrawals to replenish such Special Account shall be made as follows:

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

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into a Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of the Development Credit Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within

the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of \$31,200,000. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Accounts as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of a Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into such Special Account (or, if the Association shall so request, refund to the Association or the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into such Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in a Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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