
LOAN NUMBER ____-PAK (SF)

PROJECT AGREEMENT
(Barani Integrated Water Resources Sector Project)

between

ASIAN DEVELOPMENT BANK

and

THE PROVINCE OF PUNJAB

DATED _____ 2008

PAG: PAK 39364

PROJECT AGREEMENT

PROJECT AGREEMENT dated _____ 2008 between ASIAN DEVELOPMENT BANK ("ADB") and the Province of Punjab ("Punjab")

WHEREAS

(A) by a Loan Agreement of even date herewith between the Islamic Republic of Pakistan (the "Borrower") and ADB (hereinafter called the Ordinary Operations Loan Agreement), ADB has agreed to make to the Borrower a loan of fifty five million Dollars (\$55,000,000) (hereinafter called the Ordinary Operations Loan) on the terms and conditions set forth in the Ordinary Operations Loan Agreement;

(B) by a Loan Agreement of even date herewith between the Islamic Republic of Pakistan (the "Borrower") and ADB (hereinafter called the Special Operations Loan Agreement, and together with the Ordinary Operations Loan Agreement, hereinafter called the Loan Agreements), ADB has agreed to make to the Borrower a loan in various currencies equivalent to twelve million five hundred ninety six thousand Special Drawing Rights (SDR 12,596,000) (hereinafter called the Special Operations Loan, and together with the Ordinary Operations Loan, hereinafter called the Loans) on the terms and conditions set forth in the Special Operations Loan Agreement;

(C) ADB has agreed to make the Loans only on the condition that the proceeds of the Loans be made available to Punjab and that Punjab agree to undertake certain obligations towards ADB as set forth in this Project Agreement; and

(D) Punjab, in consideration of ADB entering into the Loan Agreements with the Borrower, has agreed to undertake the obligations set forth in this Project Agreement;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the terms defined in the Special Operations Loan Agreement and in the Loan Regulations (as so defined) have the respective meanings therein set forth.

ARTICLE II

Particular Covenants

Section 2.01. (a) Punjab shall carry out the Project with due diligence and efficiency, and in conformity with sound administrative, financial, engineering, environmental, agricultural and irrigation practices.

(b) In the carrying out of the Project and operation of the Project facilities, Punjab shall perform all obligations set forth in the Loan Agreements to the extent that they are applicable to Punjab and all obligations set forth in the Schedule to this Project Agreement.

Section 2.02. Punjab shall make available, promptly as needed, the funds, facilities, services, equipment, land and other resources which are required, in addition to the proceeds of the Loans, for the carrying out of the Project.

Section 2.03. (a) In the carrying out of the Project, Punjab shall employ competent and qualified consultants and contractors, acceptable to ADB, to an extent and upon terms and conditions satisfactory to ADB.

(b) Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Loans shall be procured in accordance with the provisions of Schedule 4 to the Special Operation Loan Agreement. ADB may refuse to finance a contract where Goods, Works or consulting services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.04. Punjab shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. Punjab shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.05. (a) Punjab shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance of the Project facilities to such extent and against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, Punjab undertakes to insure, or cause to be insured, the Goods to be imported for the Project and to be financed out of the proceeds of the Loans against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such Goods.

Section 2.06. Punjab shall maintain, or cause to be maintained, records and accounts adequate to identify the Goods, Works and consulting services and other items of expenditure financed out of the proceeds of the Loans, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

Section 2.07. (a) ADB and Punjab shall cooperate fully to ensure that the purposes of the Loans will be accomplished.

(b) Punjab shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of its obligations under this Project Agreement, or the accomplishment of the purposes of the Loans.

(c) ADB and Punjab shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, Punjab and the Loans.

Section 2.08. (a) Punjab shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loans and the expenditure of the proceeds thereof; (ii) the Goods, Works and consulting services and other items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition of Punjab as they relate to the Project; and (v) any other matters relating to the purposes of the Loans.

(b) Without limiting the generality of the foregoing, Punjab shall furnish to ADB quarterly reports on the execution of the Project and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.

(c) Promptly after physical completion of the Project, but in any event not later than three (3) months thereafter or such later date as ADB may agree for this purpose, Punjab shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by Punjab of its obligations under this Project Agreement and the accomplishment of the purposes of the Loans.

Section 2.09. (a) Punjab shall (i) maintain separate accounts for the Project; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than 6 months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the proceeds of the Loans and compliance with the financial covenants of the Loan Agreements as well as on the use of the procedures for imprest account/statement of

expenditures), all in the English language. Punjab shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) Punjab shall enable ADB, upon ADB's request, to discuss Punjab's financial statements and its financial affairs from time to time with the auditors, appointed by Punjab pursuant to Section 2.09(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of Punjab unless Punjab shall otherwise agree.

Section 2.10. Punjab shall enable ADB's representatives to inspect the Project, the Goods and Works financed out of the proceeds of the Loans, all other plants, sites, properties and equipment of the Punjab and any relevant records and documents.

Section 2.11. (a) Punjab shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its business.

(b) Insofar as they relate to the Project, Punjab shall at all times conduct its business in accordance with sound administrative, financial, environmental, agricultural and irrigation practices, and under the supervision of competent and experienced management and personnel.

(c) Insofar as they relate to the Project, Punjab shall at all times operate and maintain its plants, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound administrative, financial, engineering, environmental, agricultural, irrigation, and maintenance and operational practices.

Section 2.12. Except as ADB may otherwise agree, Punjab shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.

Section 2.13. Except as ADB may otherwise agree, Punjab shall apply the proceeds of the Loans to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreements and this Project Agreement, and shall ensure that all Goods, Works and consulting services financed out of such proceeds are used exclusively in the carrying out of the Project.

ARTICLE III
Effective Date; Termination

Section 3.01. This Project Agreement shall come into force and effect on the date on which the Loan Agreements shall come into force and effect. ADB shall promptly notify Punjab of such date.

Section 3.02. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreements.

ARTICLE IV
Miscellaneous

Section 4.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex, facsimile or radiogram to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:

(632) 636-2444
(632) 636-2301.

For the Province of Punjab

Chairman of Planning and Development Board
Government of Punjab
Civil Secretariat
Lahore

Facsimile Number:

(92-42)7353572

Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement or under Section 7.01 of the Loan Agreements by or on behalf of Punjab may be taken or executed by its Chairman of the Planning and Development Board or by such other person or persons as Chairman of the Planning and Development Board shall so designate in writing notified to ADB.

(b) Punjab shall furnish to ADB sufficient evidence of the authority of each person who will act under paragraph (a) of this Section, together with the authenticated specimen signature of each such person.

Section 4.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

ASIAN DEVELOPMENT BANK

By _____

THE PROVINCE OF PUNJAB

By _____
Authorized Representative

SCHEDULE

Execution of Project and Operation of Project Facilities; Financial Matters

1. Punjab shall cause PIPD to establish a Project Management Unit (PMU) with the following roles: (a) overall interagency and district coordination; (b) recruitment of consultants/NGOs and award of procurement and consulting contracts; (c) Project financial management; (d) consolidation, review, and submission of regular progress and financial reports to the Project Steering Committee (PSC) and ADB; and (e) monitor and evaluation of Project outputs and results.
2. Punjab shall cause PIPD to appoint, within one month of the Effective Date, the Project director, the finance manager and appropriate support staff through an open and competitive process and acceptable to ADB. The Project director shall head the PMU and report to the PIPD secretary. Punjab shall cause PIPD to ensure that the Project director has (a) qualification in either engineering, agro-economics or social sciences, and (b) relevant project managerial experience. Punjab shall cause PIPD to ensure that the PMU shall be staffed by (a) full-time managers for (i) watershed conservation, (ii) farming systems and marketing, (iii) on farm water management, (iv) finance, (v) social mobilization, (vi) water supply and sanitation, and (vii) project benefit monitoring; and (b) livestock and agriculture extension advisors as well as appropriate support staff. Punjab shall ensure that (a) the social mobilization manager shall be recruited from NGO selected under the Project to undertake the social mobilization consulting service, (b) the agricultural extension advisor shall be recruited from the firm selected under the Project to undertake agricultural advisory services, and (c) the other managers and advisors shall be recruited from the market through open and competitive process. PIPD shall ensure that, within five months of the Effective Date, the PMU shall be fully staffed and remain fully staffed throughout Project implementation period.
3. Punjab shall cause PIPD to ensure that the PMU establishes three field offices in each of (a) Attock and Rawalpindi districts, (b) Chakwal district, and (c) Jehlum district. Punjab shall further cause PIPD to ensure that each office shall be staffed with full time specialist seconded from (a) the agriculture extension, on farm water management and soil and field engineering directorates within the Department of Agriculture, (b) livestock extension directorate within the Department of Livestock, and (c) Department of Forestry; Punjab shall also cause PIPD to ensure these specialists shall report directly to their respective technical manager within the PMU. PIPD shall ensure that (a) the social mobilizers be posted in the field offices and report to the PMU social mobilization manager, and (b) one trainer shall also be posted in each field office.
4. Punjab shall cause the PMU to be responsible for direct implementation of (a) the watershed management under the first Output, (b) the second Output other than for the rehabilitation of the main channels, and (c) the third Output. Punjab shall cause the SDO to be responsible for (a) the implementation of the dam planning and construction under the first Output, and (b) the rehabilitation of the main channels under the second Output. In implementing these activities, Punjab shall ensure that the SDO shall receive specific advisory support in safeguard and technical matters from the PMU. For each sub-project under its responsibility, Punjab shall cause SDO to appoint a sub-divisional officer who shall supervise the dam feasibility, detail design studies, and engineering construction supervision

Schedule

consultants. In the implementation of the water-supply related activities under the second Output, Punjab shall ensure that the PMU shall involve the relevant TMAs on (a) the assessment of the demand of the water supply, (b) the organization of the future water supply users, and (c) the supervision of the overall execution of works and services related to water supply activities.

5. Punjab shall establish, within one month of the Effective Date, the PSC to provide broad Project oversight and Project-related policy guidance. Punjab shall ensure that this committee shall be headed by the chairman of Planning and Development Board with members consisting of the secretaries of the Departments of Irrigation and Power, Agriculture, Livestock, and Local Government, a member of the Provincial Board of Revenue, the director general of EPA, managing director of PIDA, representatives of the concerned district governments, two representatives of the civil society, and the Project director who shall also serve as secretary-member. Punjab shall ensure that this committee meets as required but at least once every year to (a) review the Project progress, and (b) act on any issues in need of resolution at the provincial level. Punjab shall ensure that the PSC shall remain fully operational throughout Project implementation period.

Subprojects Selection Criteria

6. Punjab shall ensure that all sub-projects meet the following general criteria:
- (a) The subproject must generally have an internal economic rate of return of at least 12%. In the event that substantial non tangible social benefits can be demonstrated, then the subproject with an internal economic rate of return of 10% may be permitted.
 - (b) The resettlement plan for the subproject must be finalized (i) in accordance with the LARF agreed upon between the Borrower and ADB and core subproject land acquisition and resettlement plan, and (ii) approved by ADB.
 - (c) The subproject must prepare an initial environment examination or an environment impact assessment in accordance with the agreed upon Environment Assessment and Review Procedure (EARP).
7. Punjab shall ensure that the sub-projects involving the construction of a new dam meet the following criteria:
- (a) The subproject must be technically feasible with detailed feasibility studies prepared. The proposed design and safety standards must be approved by the panel of experts recruited under the Project.
 - (b) The subproject implementation must be driven by local demand. Future beneficiaries must have clearly expressed their consensus on the usefulness of the project, their readiness to operate and maintain the future irrigation scheme and are committed to contribute at least 20% of the cost of the distribution network (exclusive of the main canal).

Schedule

(c) The subproject must have 70% of its command area owned by more than 30% of the total number of land owners, and each land owner must not own more than 15% of the command area. This criterion shall not apply for the subproject that provides domestic water.

8. Punjab shall ensure that the sub-projects for the rehabilitation or upgrading of the command area and the main carrier channel meet the following criteria:

(a) The subproject must have dam siltation rate of less than 60% of the dead storage. The subproject must include technical reports to substantiate this.

(b) The subproject must conduct dam safety inspection for dams older than 5 years and the inspection report must conclude that the dam is safe.

(c) The subproject must demonstrate that the water users are ready to finance at least 20% of the cost of the water courses rehabilitation, land leveling or other irrigation techniques development.

(d) The subproject must demonstrate that the water users are organized prior to implementation of the Works and committed to register as farmer organization under the PIDA Act.

(e) The subproject must prepare maintenance plan with equitable water rotational systems to be designed prior to physical rehabilitation.

9. Punjab shall ensure that the priority for the rural water supply and sanitation subprojects shall be the development of water supplies related to the construction of new dams. Punjab shall further ensure that the sub-projects meet the following criteria:

(a) The subproject must be technically feasible and detailed feasibility study must have been prepared.

(b) The subproject must demonstrate that at least 60% of the villagers that demand water supplies and beneficiaries must be ready to support 2% of the construction cost.

(c) The subproject must have estimated the annual O&M costs and the tariffs to be able to recover the costs.

(d) The subproject must demonstrate that the surrounding communities are willing to (i) accept responsibility for O&M, and (ii) pay for O&M requirements.

10. Punjab shall ensure that any sub-project selected for dam construction and rehabilitation shall implement watershed conservation measures.

Subproject Selection Process

11. Punjab shall establish, within three months of the Effective Date, a Subproject Selection and Planning Committee (SSPC) to monitor and advise the planning process and to address subproject selection issues. Punjab shall ensure that the SSPC shall be chaired by the chief engineer development zone, PIPD with the Project director, PMU as the secretary-member and that the members comprise the project director, SDO; the director engineering strategic cell, PIPD; the director, SEMU; the deputy director planning and technical monitoring; one or more of the Project managers within PMU; and the concerned executive engineers. Punjab shall ensure that, based on the recommendation of the SSPC, ADB and PIPD shall make the final approval of the subprojects. The approval by ADB shall only be required for the first five subprojects of each category of subprojects unless ADB is not satisfied with the initial stage of the subproject selection process.

Subproject Implementation

12. For each dam related sub-project, Punjab shall establish a subproject design and construction committee during the dam design and construction phases to (a) ensure effective coordination between the social mobilization, the construction and the resettlement processes; (b) resolve issues arising between the communities, the contractors and other parties; (c) review progress against target; and (d) inform district administration on progress made. Punjab shall ensure that the committee shall be chaired by the executive engineer, SDO with a sub-divisional officer, SDO as secretary-members and that the members comprise the resident engineer; a representative of the affected persons; one of the social mobilizers; and a representative of the executive district officer in which the sub-project is located. Punjab shall allow the chair to nominate any other members as deemed necessary.

13. Upon completion of the dam construction, Punjab shall establish a subproject development and operation committee to (a) ensure the effective coordination between the activities related to the sub-project; (b) resolve issues arising between the communities, the project teams, contractors and other parties; (c) review progress against target; and (d) inform district administration on progress made. Punjab shall ensure that the committee shall be chaired by one of the PMU managers with one of the social mobilizers as the secretary-member and that the members comprise a sub divisional officer, SDO; the agriculture extension, livestock extension and on-farm water management, soil and conservation and forest technical officers based in the PMU field offices; representative of the farmers' organizations; and a representative of the executive district officer in which the sub-project is located. Punjab shall allow the chair to nominate any other members as deemed necessary.

Incremental Staff

14. Within three months of the Effective Date, Punjab shall ensure that PIPD shall augment SDO staffing to include the positions of deputy director planning and technical monitoring and three social mobilizers. SDO shall assign its deputy director planning and technical monitoring into the PMU to serve as the full time Works coordinator. In its capacity as the full time Works coordinator, the deputy director planning and technical monitoring shall report to the Project director.

Standard Operating Procedures

15. Within twenty four months of the Effective Date, Punjab shall have developed and adopted operational guidelines on small dams, which shall specify clearly the roles and duties of various institutions involved in the operations of small dams, including but not limited to SDO and farmer organizations.

Farmer Organizations

16. Punjab shall establish appropriate arrangements, as stipulated in its prevailing laws, rules and regulations, for proper and timely registration of the farmer organizations within the Project area. Within thirty six months of the Effective Date, Punjab shall ensure that 50% (fifty percent) of the farmer organizations required for the operation and maintenance of the facilities constructed under the Project shall have been established. In order to ensure proper operation and maintenance of the facilities, Punjab shall allow the farmer organizations within the Project area to retain a reasonable portion of the collected proceeds from the irrigation water fee, the amount of which shall be agreed upon between Punjab and ADB.

Dams Development Strategy

17. Prior to the completion of the Project, Punjab shall have adopted a provincial strategy and an implementation manual for dam development in Pothowar.

Dam Safety and Sedimentation Monitoring Unit

18. Prior to the completion of the Project, Punjab shall have established a dam safety and sedimentation monitoring unit to undertake regular dam safety inspections and sediments surveys.

Dams Construction

19. Punjab shall ensure that during Project implementation period, any construction of dams within the Project area which is outside the scope of the Project shall be conducted in accordance with the criteria and approach adopted under the Project. Punjab shall also ensure that the construction of these dams shall be done through the provision of additional resources to the relevant agencies in order to avoid delay in Project implementation.

Budgetary Allocations

20. Punjab shall ensure that appropriate allocation is made in its annual budget to ensure proper operations and maintenance of the dams and the main channel carrier.

Bidding Documents

21. Punjab shall ensure that the bidding documents and Works contracts under the Project shall include provisions which require (a) prompt and equal pay to be provided to men and women for work of equivalent value; (b) safe working conditions to be provided for all the workers; and (c) child labor to be employed in accordance with national laws and international treaty obligations and that child labor shall not be employed for rehabilitation and maintenance activities. The PMU shall monitor compliance and report on the implementation of these activities in its regular progress reports.

Environment

22. Punjab shall require (a) the relevant contractor under the Project to prepare an environmental management plan (EMP) for each sub project to minimize any adverse environmental impacts arising from the construction of the subproject; (b) the relevant contractor to appoint an environment manager with qualifications in environmental science or management to be responsible for implementation of the EMP; and (c) prior to the release of the land for the subproject, the SEMU to approve the relevant contractor's EMP. Punjab shall be responsible for the environmental monitoring and management of the subproject once the subproject becomes operational.

23. Punjab shall ensure that the Works contracts under the Project include provisions to indicate that the Works contractors shall be subject to routine monitoring of environmental performance. In the event the contractors fail to comply with the requirements of the EMP, or the contractor's environmental management performance is deemed unsatisfactory by SEMU, Punjab shall cause the PMU to issue a corrective action notice. Punjab shall ensure that the failure by the contractors to fully comply with the corrective action notice shall result in a stop work order being issued and the contractors shall be fully liable for any costs incurred to the Project due to the issuance of such order.

Project Performance Management System

24. Within 6 months of the Effective Date, Punjab shall establish a specific monitoring and evaluation (M&E) unit within the PMU. The M&E unit shall establish a monitoring and evaluation system that shall be used throughout Project implementation. The M&E unit shall ensure that the system will generate trimester reports on Project implementation progress. Within no later than 12 months of the Effective Date, specific indicators shall be identified as a basis for the monitoring and evaluation of the Project. Punjab shall ensure that a baseline survey shall be implemented for each sub-project before its commencement and at the end of its implementation. Punjab shall further ensure that thematic evaluations may be implemented by the M&E unit upon request either from the Project director, one of the PMU managers or ADB.

Project Review

25. Punjab and ADB shall conduct semi-annual Project review to (a) ensure that the Project implementation arrangements are in place and appropriate; (b) assess implementation progress and identify remedial measures to address bottlenecks; and (c) ensure that safeguards and other conditions are being met. Within 30 months of the Effective Date, Punjab and ADB shall conduct a mid term Project review to (a) provide comprehensive evaluation of the Project implementation arrangement and progress to date, and (b) consult with the beneficiary communities, line agencies, the EPA, non government organizations and district authorities. Based on the outcome of the review, Punjab and ADB may consider making adjustments to the Project scope, implementation arrangements and cost estimates.

Auditing and Reporting

26. Punjab shall provide ADB with copies of the audited Project accounts and financial statements no later than 6 months after the end of the fiscal year to which they relate. Punjab shall also provide ADB with quarterly progress reports on Project implementation. Within 3 months of the physical completion of the Project, Punjab shall provide ADB with a Project completion report.