Project Agreement

(Highways Rehabilitation Project)

among

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

NATIONAL HIGHWAY AUTHORITY

Dated January 26, 2004
ARTICLE I
Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, in the IDA General Conditions (as so defined), in the Loan Agreement, in the IBRD General Conditions (as so defined) and in the Preamble to this Agreement have the respective meanings therein set forth.
ARTICLE II

Execution of the Project

Section 2.01. (a) NHA declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, transport and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association, the Bank and NHA shall otherwise agree, NHA shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement, the PIP, the relevant Environmental Management Plans, the Resettlement Policy Framework and the relevant Resettlement Action Plans.

Section 2.02. Except as the Association and the Bank 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 and the Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) NHA shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the IDA General Conditions, and Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the IBRD 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 Project Agreement.

(b) For the purposes of Section 9.06 of the IDA General Conditions and Section 9.07 of the IBRD General Conditions, and without limitation thereto, NHA shall:

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

(ii) afford the Association and the Bank a reasonable opportunity to exchange views with NHA on said plan.
Section 2.04. (a) NHA shall, at the request of the Association and the Bank, exchange views with the Association and the Bank with regard to the progress of the Project and the performance of its obligations under this Agreement, and other matters relating to the purposes of the Credit and the Loan.

(b) NHA shall promptly inform the Association and the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit and the Loan, or the performance by NHA of its obligations under this Agreement.

ARTICLE III

Financial and Other Covenants

Section 3.01. (a) NHA shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association and the Bank, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) NHA shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with auditing standards acceptable to the Association and the Bank, consistently applied, by independent auditors acceptable to the Association and the Bank;

(ii) furnish to the Association and the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and report of such audit, by said auditors, of such scope and in such detail as the Association and the Bank shall have reasonably requested; and

(iii) furnish to the Association and the Bank such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association and the Bank may from time to time reasonably request.
Section 3.02. (a) Without limitation upon NHA’s reporting obligations set out in paragraph 7 of Schedule 2 to this Agreement, NHA shall prepare and furnish to the Association and the Bank a financial monitoring report, in form and substance satisfactory to the Association and the Bank, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit and the Loan, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association and the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Association and the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 3.03. NHA shall: (a) maintain and operate RMA in accordance with the relevant rules, regulations and standard operating procedures notified from time to time in consultation with the Association and the Bank; (b) as part thereof, produce in each Fiscal Year an annual report in the public domain on the policies and activities of RMA in the preceding Fiscal Year, including an assessment of the current condition of the NHA road and bridge network, a prioritized annual maintenance plan for such network for the next Fiscal Year, a summary of the results of stakeholder consultations, and the reports of independent annual financial and technical audits; and (c) for these purposes and at all times, keep all key professional positions within its Road Asset Management Directorate (RAMD) fully staffed.

Section 3.04. NHA shall: (a) periodically review and modify as appropriate, the structure and level of its road user charges including tolls, to ensure that such charges broadly reflect: (i) the extent of road use; (ii) the damage caused to the road network by individual vehicle categories; and (iii) the level of service provided; and (b) provide the
Association and the Bank prior and timely opportunities to review and comment on the proposed modifications.

Section 3.05. Except as the Association and the Bank shall otherwise agree, NHA shall, during the implementation of the Project: (a) carry out its investment and maintenance program in compliance with the MTBF; (b) consult with the Association on a timely basis each year on its annual investment and maintenance plan, giving due consideration to any comments and suggestions made by the Association on such plan in the course of such consultation; and (c) in particular, fully implement the National Highway Improvement Program.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement and the Loan Agreement become effective.

Section 4.02. (a) This Agreement and all obligations of the Association, the Bank and NHA thereunder shall terminate on the earlier of the following two dates:

   (i) the date on which the Development Credit Agreement and the Loan Agreement shall terminate in accordance with their terms; or

   (ii) the date 20 years after the date of this Agreement.

(b) If the Development Credit Agreement and the Loan Agreement terminate in accordance with their terms before the date specified in paragraph (a)(ii) of this Section, the Association and the Bank shall promptly notify NHA of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the IDA General Conditions and the IBRD General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this 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, telex or facsimile to the party to which it is required or permitted to be given or made at such party’s 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. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Association:

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

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

For the Bank:

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

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

For NHA:

National Highway Authority
Plot No. 27, Mauve Area, G-9/1, Islamabad

Facsimile:
92-51-9260404

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of NHA may be
taken or executed by the Chairman, NHA, or by NHA on behalf of the Borrower under the Development Credit Agreement and the Loan Agreement, or such other person or persons as said Chairman, NHA shall designate in writing, and said Chairman, NHA shall furnish to the Association and the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Abid Hasan
Acting Country Director
Pakistan

NATIONAL HIGHWAY AUTHORITY

By /s/ Farrukh Javed
Authorized Representative
SCHEDULE 1

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, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

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 estimated to cost $3,000,000 equivalent or more per contract shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

   (b) 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.

   (c) 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.
(d) **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) (i) Works estimated to cost less than $5,000,000 equivalent per contract; and (ii) goods estimated to cost $25,000 equivalent or more but less than $200,000 equivalent per contract, up to an aggregate amount not to exceed $1,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

   (b) The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of subparagraph (a) of this paragraph 1.

   (i) **Grouping of Contracts**

       To the extent practicable, contracts shall be grouped in bid packages to attract national bidders.

   (ii) **Improvement of Bidding Procedures**

       In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section 1 of the Guidelines:

       (aa) invitations to pre-qualify or bid shall be advertised in at least one national newspaper with a wide circulation, at least 30 days prior to the deadline for the submission of bids;

       (bb) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;

       (cc) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;
(dd) bidding shall not be restricted to pre-registered firms;

(ee) qualification criteria shall be stated in the bidding documents;

(ff) bids shall be opened in public, immediately after the deadline for submission of bids;

(gg) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;

(hh) before rejecting all bids and soliciting new bids, the Association’s prior concurrence shall be obtained;

(ii) bids shall be solicited and contracts shall be awarded on the basis of unit prices and not on the basis of a composite schedule of rates (CSR);

(jj) contracts shall not be awarded on the basis of nationally negotiated rates;

(kk) contracts shall be awarded to the lowest evaluated and qualified bidders; and

(ll) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders.

2. International or National Shopping

Goods estimated to cost less than $25,000 equivalent per contract, up to an aggregate amount not to exceed $300,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 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, the proposed procurement plan for the Project 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. Such plan shall be updated from time to time during the execution of the Project to reflect any delay, or other changes in the scheduling of the procurement process, which could significantly affect the timely and successful implementation of the Project contracts, and each such updating shall be furnished to the Association and the Bank for their review and agreement. Procurement of all goods and works shall be undertaken in accordance with such procurement plan (as updated from time to time) as shall have been approved by the Association and the Bank, and with the provisions of said paragraph 1.

2. **Prior Review**

With respect to: (i) each contract for works awarded in accordance with paragraph B.1 of this Section I; (ii) each contract for works awarded in accordance with paragraph C.1 of this Section I and estimated to cost $500,000 equivalent or more but less than $5,000,000 equivalent; (iii) the first contract for works awarded in accordance with paragraph C.1 of this Section I and estimated to cost less than $500,000 equivalent; (iv) each contract for goods awarded in accordance with paragraph B.1 of this Section I; and (v) the first contract for goods awarded in accordance with paragraph C.1 of this Section I estimated to cost $25,000 equivalent or more but less than $200,000 equivalent, 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**

**Part A:**  
**General**

Consultants’ services shall be procured in accordance with the provisions of Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

**Part B: Quality- and Cost-based Selection**

1. Except as otherwise provided in Part C of this Section, consultants’ services shall be procured under contracts awarded in accordance with the provisions of Section II of
the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants’ services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants, estimated to cost less than $500,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants’ Qualifications

   Services estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

   Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

   A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association and the Bank for their review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated from time to time during the execution of the Project to reflect any delay, or other changes in the scheduling of the procurement process, which could significantly affect the timely and successful implementation of the Project contracts, and each such updating shall be furnished to the Association and the Bank for their review and agreement. Selection of all consultants’ services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association and the Bank.
2. **Prior Review**

   (a) With respect to: (i) each contract for employment of consulting firms estimated to cost $100,000 equivalent or more; and (ii) the first contract for employment of consulting firms estimated to cost less than $100,000 equivalent, the procedures set forth in paragraphs 1, 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

   (b) With respect to: (i) each contract for the employment of individual consultants estimated to cost $50,000 equivalent or more; and (ii) the first contract for the employment of individual consultants estimated to cost less than $50,000 equivalent, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Association and the Bank for their prior review and approval. The contract shall be awarded only after said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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 Consultant Guidelines shall apply.
SCHEDULE 2

Implementation Program

1. NHA shall, before the award of the first civil works contract, engage, in accordance with the provisions of Section II of Schedule 1 to this Agreement, a consulting firm to act as Engineer/Project Manager for the purposes of contract administration and construction supervision under the Project.

2. NHA shall, throughout the execution of the Project and in collaboration with the relevant traffic enforcement authorities, maintain a formal coordination structure satisfactory to the Association and the Bank, for the purposes of ensuring: (a) safe and uninterrupted traffic flows along the Project corridors during the construction and operation of the Project facilities; and (b) effectiveness of various traffic and road safety measures supported under the Project.

3. NHA shall ensure that no works will be undertaken under the second and subsequent phases of Part A of the Project unless and until the relevant Environmental Management Plans and Resettlement Action Plans approved by the Association and the Bank have been prepared.

4. NHA shall ensure that:

   (a) all land acquisition required for the purposes of carrying out any works under the Project and activities related to the resettlement and rehabilitation of the PAPs in connection with such works will be completed prior to the carrying out of such works, in accordance with the provisions set forth in the Resettlement Policy Framework and the relevant Resettlement Action Plans in a manner satisfactory to the Association and the Bank;

   (b) all land acquisition required for the Project will be carried out in accordance with the policies, principles and procedures set forth in the Land Acquisition Act, as further elaborated in the Resettlement Policy Framework; and

   (c) no land acquisition required for the Project will be carried out by using the emergency provisions of Section 17 of the Land Acquisition Act.

5. NHA shall uniformly apply the Resettlement Policy Framework and related safeguard policies to all components of the Project as well as other construction contracts being undertaken during the Project period on the National Highway N-5 and the National Highway M-9 under the Borrower’s National Highway Improvement Program, that result in involuntary resettlement, regardless of the source of financing.
6. NHA shall, throughout the period of Project implementation, prepare quarterly progress reports, in form and substance satisfactory to the Association and the Bank, on the implementation of the Environmental Management Plans, the Resettlement Policy Framework and the Resettlement Action Plans.

7. NHA shall:

(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 and the Bank, the carrying out of the Project (including compliance with the Environmental Management Plans, the Resettlement Policy Framework and the Resettlement Action Plans) and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association and the Bank, and furnish to the Association and the Bank, on or about December 31, 2005, 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 March 31, 2006, or such later date as the Association and the Bank 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 and the Bank’s views on the matter.