Dear Sir:


In response to the request for financial assistance made on behalf of the Islamic Republic of Pakistan ("Recipient"), I am pleased to inform you that the International Development Association ("World Bank") proposes to extend to the Recipient an advance out of the World Bank’s Project Preparation Facility in an amount not to exceed four million Dollars ($4,000,000) ("Advance") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in financing the activities described in the Annex ("Activities"). The objective of the Activities is to facilitate the preparation of a proposed project designed to help the Recipient accelerate hydropower development ("Project"), for the carrying out of which the Recipient has requested the World Bank’s financial assistance.

The Recipient represents, by confirming its agreement below, that: (a) it understands that the provision of the Advance does not constitute or imply any commitment on the part of International Bank for Reconstruction and Development or the International Development Association to assist in financing the Project; and (b) it is authorized to enter into this Agreement and to carry out the Activities, repay the Advance and perform its other obligations under this Agreement, all in accordance with the provisions of this Agreement.

20-A, Shahrah-e-Jamhuriat, G-5/1, Islamabad, Pakistan / Phone: (92-51) 9090000 / Fax: (92-51) 2279648
Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By Melinda Good
Acting Country Director, Pakistan

AGREED:

ISLAMIC REPUBLIC OF PAKISTAN

By ____________________________
Authorized Representative

Name ____________________________
Noor Ahmed
Secretary
Economic Affairs Division
Government of Pakistan
Islamabad

Date: ____________

Enclosures:

(1) "Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility", dated July 31, 2010; and

(2) Disbursement Letter for the Advance of the same date as this Agreement, together with "Disbursement Guidelines for Investment Project Financing", dated February 2017.
ANNEX

Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The “Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility”, dated July 31, 2010 (“Standard Conditions”), constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement as follows:

(a) “Implementing Entity” means the Province of Khyber Pakhtunkhwa.

(b) “Kalkot-Barikot-Patrak Hydropower project” means the Kalkot-Barikot-Patrak Hydropower activities under the Project including, *inter alia*, the building and/or installation of diversion structure, generation facilities, and other associated and ancillary infrastructure.

(c) “Gabral-Kalam Hydropower project” means the Gabral-Kalam Hydropower activities under the Project including, *inter alia*, the building and/or installation of diversion structure, generation facilities, and other associated and ancillary infrastructure.

(d) “Operating Costs” means the reasonable costs of incremental expenditures incurred by the Implementing Entity and PEDO on account of implementation of the Activities, which expenditures would not have been incurred absent the Activities, including, *inter alia*: office space rental and utilities, office maintenance and repair, office consumables, vehicles rental, operation and maintenance; communications, printing and/or publication expenses; staff per diems, field allowances; travel expenses; bank charges; insurance premia; and salaries and salary supplements of contractual and temporary staff working exclusively on the Activities (including those incremental to the Implementing Entity), but excluding salaries and salary supplements of civil servants.

(e) “Patrak-Shringal Hydropower project” means the Patrak-Shringal Hydropower activities under the Project including, *inter alia*, the building and/or installation of diversion structure, generation facilities, and other associated and ancillary infrastructure.


(g) “Training and Workshops” means the reasonable costs of training, workshops and conferences conducted in the territory of the Recipient and, subject to the World Bank’s prior approval, overseas, including training institutions and course fees, logistics expenses,
rental of training facilities, purchase and publication of training materials, and travel and subsistence allowance for trainers and/or trainees.

(h) "World Bank Safeguard Policies" means the World Bank’s operational policies and procedures set forth in the World Bank’s Operational Manual and identified as OP/BPs 4.01, 4.04, 4.09, 4.10, 4.11, 4.12, 4.36, 4.37, 7.50 and 7.60 as said manual is published under www.WorldBank.org/opmanual.

Article II
Execution of the Activities

2.01. Description of the Activities. The Activities for which the Advance is provided consist of the following parts:

Provision of technical and operational assistance to:

(a) update the feasibility studies, prepare detailed design and other documents required for approvals and clearances, operational and technical support for procurement process, conduct environmental and social impact assessment (ESIA), prepare resettlement action plans of Kalkot-Barikot-Patrak Hydropower project and Patrak-Shringal Hydropower project;

(b) prepare cumulative impact assessment of Swat River Basin;

(c) conduct power evacuation study for Swat Cascade;

(d) put in place independent panel of experts covering, inter alia, geology, environment, social/resettlement, dam safety, hydrology, mechanical, electrical, contract management;

(e) review and provide advice on the ongoing feasibility and design study of Gabral-Kalam Hydropower project to ensure its quality for bankability and compliance with the World Bank safeguards requirements; and inclusion of said review and advice in the terms of reference of the independent panel of experts;

(f) conduct independent review of the Gabral-Kalam Hydropower project ESIA, and any additional studies/investigations as may be recommended by the independent panel of experts; and

(g) support the establishment and staffing of a project management unit (PMU), and strengthen the PMU’s capacity to mobilize financing and Project preparation, including, inter alia, goods, equipment, vehicles, individual advisors/consultants, technical assistance, training, workshops, roadshows/consultations to mobilize financing and specialized studies.

2.02. Execution of the Activities Generally. The Recipient declares its commitment to the objectives of the Activities. To this end, the Recipient shall cause the Activities to be carried out
by the Implementing Entity, through PEDO, in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) this Article II; and (c) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
2.03. **Institutional and Other Arrangements.**

(a) **On-lending Arrangements.**

(i) To facilitate the carrying out of the Activities, the Recipient shall make the proceeds of the Advance available to the Implementing Entity in accordance with the provision of this Agreement and the Recipient’s on-lending policies and budgetary procedures, and under the same terms and conditions as shall have been received from the World Bank.

(ii) Notwithstanding paragraph (i) above, in the event that any of the provision of this Agreement, including the instructions that the World Bank shall have specified by notice to the Recipient pursuant to Section 3.01 of this Annex, are inconsistent with the budgetary procedures of the Recipient, the provision of this Agreement shall govern.

(iii) The Recipient shall exercise its rights under the on-lending arrangements referred to in the preceding paragraphs in such manner as to protect the interests of the World Bank and to accomplish the purposes of the Advance.

(b) **Subsidiary Agreement.**

(i) To facilitate the carrying out of the Activities, the Recipient shall cause the Implementing Entity to enter into a subsidiary agreement with PEDO to make the proceeds of the Advance available to PEDO ("Subsidiary Agreement"), in accordance with the provisions of this Agreement and the Recipient’s on-lending policies and procedures, acceptable to the World Bank, which shall include, *inter alia*, the following:

(a) the principal amount of the Advance made available under the Subsidiary Agreement shall be: (i) denominated and repayable in Pakistan rupees; (ii) charged interest on the principal amount withdrawn and outstanding from time to time at the rate acceptable to the Association; and (iii) repayable to the Implementing Entity pursuant to an amortization schedule consistent with the provision of Section 4.02 hereto;

(b) the obligation of PEDO to carry out the Activities with due diligence and efficiency, in conformity with appropriate administrative, financial and technical practices and provide, or cause to be provided, promptly as needed, the facilities, services and other resources required for the Activities;

(c) the obligation of PEDO to comply with record keeping, auditing and reporting requirements set forth in this Agreement (regarding operations, resources and expenditure) for the Activities;

(d) the obligation of PEDO, at the request of the Recipient or the World Bank, to exchange views with the Recipient and the World Bank with regard to the progress of the Activities and the performance of its obligations under the Subsidiary Agreement; and
(c) the obligation of PEDO to promptly inform the Recipient and the World Bank of any condition which interferes or threatens to interfere with the progress of the Activities, or the performance of its obligations under the Subsidiary Agreement.

(ii) The Recipient shall obtain rights adequate to protect its interests and those the World Bank, including the right to suspend or terminate PEDO’s right to use the proceeds of the Advance, or obtain a refund of all or any part of the amount of the Advance then withdrawn, upon PEDO’s material failure to perform any of its obligations under the Subsidiary Agreement.

(iii) The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Advance. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

(iv) In the event of any conflict between the provisions of the Subsidiary Agreement and the provisions of this Agreement, the provisions of this Agreement shall prevail.

(c) Safeguards.

Without limitation upon the provision of Section 2.02 above and in order to ensure proper implementation of the Activities and the Project in an environmentally and socially responsible manner, the Recipient shall ensure, and cause the Implementing Entity and PEDO to ensure that the terms of reference for any consultancies related to any studies, technical assistance and capacity building activities under this Agreement shall be satisfactory to the World Bank following its review thereof, and, to that end, such terms of reference shall duly incorporate the requirements of the World Bank’s Safeguard Policies, as applied to any consultations, information gathering and advice conveyed through such studies, technical assistance and capacity building activities.

(d) Annual Work Plans and Budgets

(i) The Recipient shall ensure, or shall cause the Implementing Entity to ensure that the World Bank is furnished, not later than September 30 of each fiscal year of the Recipient during the implementation of the Activities (or such later date as the World Bank may agree) for the World Bank’s no-objection, a consolidated Annual Work Plan and Budget ("AWPB").

(ii) The Recipient shall ensure, or shall cause the Implementing Entity to ensure that the Activities are implemented in accordance with the AWPB (provided, however, that in the event of any conflict between the AWPB and the provisions of this Agreement, the provisions of this Agreement shall prevail).

(iii) The Recipient shall not make or allow to be made any change to the AWPB without prior no-objection in writing by the World Bank.
2.04. **Monitoring, Reporting and Evaluation of the Activities.** The Recipient shall and shall cause the Implementing Entity to monitor and evaluate the progress of the Activities in accordance with the provisions of Section 2.08 of the Standard Conditions.

2.05. **Financial Management.** (a) The Recipient shall ensure, and cause the Implementing Entity to ensure that a financial management system is maintained in accordance with the provisions of Section 2.09 of the Standard Conditions.

(b) The Recipient shall ensure, and shall cause the Implementing Entity to ensure that interim un-audited financial reports for the Activities are prepared and furnished to the World Bank not later than forty-five (45) after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall ensure, and shall cause the Implementing Entity to ensure that PEDO have its Financial Statements of the Activities audited in accordance with the provisions of Sections 2.09 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one (1) fiscal year of PEDO, commencing with the fiscal year in which the first withdrawal under the Advance was made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.06. **Procurement**

All goods, non-consulting services and consulting services required for the Activities and to be financed out of the proceeds of the Advance shall be procured in accordance with the requirements set forth or referred to in the “World Bank Procurement Regulations for IPF Borrowers” dated July 2016, revised November 2017 (“Procurement Regulations”) and the provisions of the Recipient’s procurement plan for the Activities dated February 28, 2018 (“Procurement Plan”) provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the World Bank.

**Article III**

**Withdrawal of the Advance**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Advance in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “Disbursement Guidelines for Investment Project Financing” dated February 2017, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance 100% of Eligible Expenditures consisting of goods, non-consulting services, consulting services, Training and Workshops and Operating Costs, inclusive of Taxes.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made:

(a) for payments made prior to the date of countersignature of this Agreement by the Recipient, except that withdrawals up to an aggregate amount not to exceed $500,000
equivalent may be made for payments made prior to this date but on or after March 1, 2018, for Eligible Expenditures; and

(b) until the Subsidiary Agreement has been executed in form and substance satisfactory to the World Bank and the World Bank dispatches to the Recipient notice of its acceptance of the Subsidiary Agreement.

3.03. **Refinancing Date.** The Refinancing Date is December 31, 2020.

**Article IV**

**Terms of the Advance**

4.01. **Service Charge.** The Recipient shall pay a service charge on the Withdrawn Advance Balance at the rate of three-fourths of one percent (3/4 of 1%) per annum. The service charge shall accrue from the respective dates on which amounts of the Advance are withdrawn and shall be paid in arrears in accordance with the provisions of Section 4.02 of this Agreement. Service charges shall be computed on the basis of a 360-day year of twelve 30-day months.

4.02. **Repayment.** The Withdrawn Advance Balance shall be repaid by the Recipient to the World Bank (together with any service charges accrued thereon) in accordance with the provisions of Article IV of the Standard Conditions and the following provisions:

(a) **Refinancing under the Refinancing Agreement:** If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, then the full amount of the Withdrawn Advance Balance shall be repaid to the World Bank (together with any service charges accrued on the Advance to the date of repayment) as soon as the Refinancing Agreement becomes effective, by means of a withdrawal by the World Bank of an amount of the Refinancing Proceeds equivalent to the Withdrawn Advance Balance plus such service charges, in accordance with the provisions of the Refinancing Agreement.

(b) **Repayment in the absence of a Refinancing Agreement:** If, on or before the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, or if, by such date, it has been so executed but terminates without becoming effective, then:

(i) if the amount of the Withdrawn Advance Balance does not exceed $50,000, it shall be repaid by the Recipient to the World Bank (together with service charges accrued on the Withdrawn Advance Balance to the date of repayment) on such date as the World Bank shall specify in a notice to the Recipient, which shall in no event be earlier than 60 days following the date of dispatch of such notice; and

(ii) if the amount of the Withdrawn Advance Balance exceeds $50,000, it (together with service charges accrued on the Withdrawn Advance Balance to the Notice Date) (the "Aggregate Balance") shall be paid by the Recipient to the World Bank in ten approximately equal semiannual installments, in the amounts and on the dates ("Payment Dates") which the World Bank shall specify in a notice to the Recipient. In no event shall the first Payment Date be set earlier than 60 days.
following the date ("Notice Date") of dispatch of such notice. The Recipient shall pay a service charge on the Aggregate Balance at the rate of three-fourths of one percent (3/4 of 1%) per annum, payable in arrears on each Payment Date. The service charge shall be computed on the basis of a 360-day year of twelve 30-day months.

**Article V**

**Recipient’s Representatives Address**

5.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 9.02 of the Standard Conditions is the Secretary, Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer of the Economic Affairs Division of the Ministry of Finance, Economic Affairs, Revenue, Statistics and Privatization, each such person acting individually.

5.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 9.01 of the Standard Conditions is:

Economic Affairs Division
Ministry of Finance, Economic Affairs, Revenue, Statistics and Privatization
Islamabad, Pakistan

Facsimile:
92-51-921-8976

5.07. **World Bank’s Address.** The World Bank’s Address referred to in Section 9.01 of the Standard Conditions is:

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

Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: (1)-202-477-6391