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A.I.D. Project No. 391-0413
Appropriation No. 72-1121037
Allotment No. HESA-82-27391-KG13

AMENDATORY AGREEMENT

TO

PROJECT GRANT AGREEMENT

BETWEEN

PRESIDENT OF THE ISLAMIC REPUBLIC OF PAKISTAN

AND THE

UNITED STATES OF AMERICA

FOR

ON-FARM WATER MANAGEMENT

Dated: August 18, 1982

(CONFORMED COPY)

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AGREEMENT FOR ON-FARM WATER MANAGEMENT

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AMENDATORY AGREEMENT TO PROJECT GRANT AGREEMENT
FOR ON-FARM WATER MANAGEMENT

Dated: August 18, 1982

Between

The President of the Islamic Republic of Pakistan,
acting through the Government of Pakistan (hereinafter
referred to as the "Grantee")

and

The United States of America, acting through the
Agency for International Development ("A.I.D.")

Article 1: Purpose of Amendment

This Amendatory Agreement to the Project Grant Agreement between the President of the Islamic Republic of Pakistan, acting through the Government of Pakistan, and the United States of America, acting through the Agency for International Development for On-Farm Water Management, dated August 30, 1979, is entered into by the parties above named ("Parties") to grant the Grantee additional United States ("U.S.") dollars for the On-Farm Water Management Project No. A.I.D. 391-0413, to delete and replace the Project definition and description as contained in the original Project Grant Agreement and

Annex (Attachment A & B), to provide for conditions precedent to disbursements under this Amendatory Project Agreement and to add a Special Condition with reference to Cultivation of Opium Poppy and Processing of Opium into Heroin, and ancillary provisions relating thereto.

Article 2: The Project

A. Section 2.1 of Article 2 of the Project Agreement is hereby deleted in its entirety and the following is substituted in lieu thereof:

" Section 2.1. Definition of Project. The Project, which is further described in the Amended Annex 1 (Attachment A & B), consists of a grant to provide technical assistance in support of the On-Farm Water Management (OFWM) Loan Project No. A.I.D. Loan No. 391-T-172. The Amended Project shall mean the provision of technical assistance, commodities and training and reimbursement for civil work carried out in support of the On-Farm Water Management Project including, but not limited to, services and commodities for improvement in irrigation, water courses, precise levelling of farm land, and crop and water management practices targeted to small and medium farmers.

Within the limits of the above definition of this Project, as herein amended, elements of the amplified description stated in the Amended Annex 1 (Attachment A & B) may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2 of the original Project, without formal amendment of this Agreement."

B. Section 2.2. The following new section is hereby added to Article 2 of the Project:

" Section 2.2. Incremental Nature of Project.

(a) A.I.D.'s contribution to the Project, as hereby amended, will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Amendatory Agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose and to the mutual agreement of the parties, at the time of each subsequent increment, to proceed.

(b) Within the overall Project Assistance Completion Date ("PACD") stated in this Amendatory Agreement, A.I.D., based upon consultation with the Grantee, may specify in Project

Implementation Letters, appropriate time periods for the utilization of funds granted by A.I.D. under each individual increment of assistance."

Article 3: Financing

A. Section 3.1 of the Project Agreement is hereby modified by the addition of the following paragraph as the second full paragraph of Section 3.1:

"To assist the Grantee to meet the costs of carrying out the Project, as hereby amended, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee, under the terms of this Amendatory Agreement, an additional amount not to exceed United States Dollars Seven Million (\$ 7,000,000) ("Grant"). This additional Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Project as hereby amended."

B. Section 3.3 (a) of the Project Agreement is hereby deleted and the following is substituted in lieu thereof:

"Section 3.3(a). Project Assistance Completion Date (PACD). The PACD, as extended, is June 30,

1985 or such other date as the Parties may agree to in writing, and is the date by which the Parties estimate that all services financed under the Grant will have been performed and all goods financed under the Grant will have been furnished for the Project as contemplated in this Amendatory Agreement."

Article 4: New Section 6.2-Local Currency Costs

The following new Section 6.2 "Local Currency Costs" is hereby added after Section 6.1 of Article 6 of the Project Agreement:

"Section 6.2. Local Currency Costs. Disbursements under the Amendatory Grant and pursuant to Section 7.4 will be used exclusively to finance the costs of goods, services and training required for the Project as herein amended having their source and, except as A.I.D. may otherwise agree in writing, their origin in Pakistan ("Local Currency Costs")."

Article 5: New Section 7.4-Disbursement for Local Currency Costs

The following new Section 7.4 "Disbursement for Local Currency Costs" is hereby added after Section 7.3 of Article 7 of the Project Agreement:

"Section 7.4. Disbursement for Local Currency Costs.

(a) After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under this Amendatory Grant for Local Currency Costs required for the Project as herein amended, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The Local Currency needed for such disbursements may be obtained:

(1) by acquisition by A.I.D. with U.S dollars by purchase or from local currency already owned by the U.S. Government; or

(2) by A.I.D. (A) requesting the Grantee to make available the local currency for such costs, and (B) thereafter making available to the Grantee, through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Grantee or its designee,

an amount of U.S. dollars equivalent to the amount of local currency made available by the Grantee, which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters. The U.S. dollar equivalent of the local currency made available hereunder will be, in the case of sub-section (b) (1) above, the amount of U.S. dollars required by A.I.D. to obtain the local currency, and in the case of sub-section (b) (2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation Memorandum hereunder as of the date of the opening or amendment of the applicable Special Letter of Credit."

Article 6: New Article 9-Conditions Precedent to Disbursement

The following new Article 9 "Conditions Precedent to Disbursement" is hereby added after Section 8.3 of Article 8 of the Project Agreement:

"Article 9: Conditions Precedent to Disbursements for Civil Works.

Except as A.I.D. may otherwise agree in writing,

prior to any disbursement under this Amendatory Agreement for civil works under a local government pilot program, or to the issuance by A.I.D. of documents pursuant to which disbursements will be made for civil works under a local government pilot program in any given province, the Grantee shall provide to A.I.D., in form and substance satisfactory to A.I.D. (a) documentation establishing that a PC-1 (Grantee Planning Document) has been approved by the Grantee and (b) documentation that an implementation plan approved by the Grantee has been prepared by the Ministry of Local Government and Rural Development. This implementation plan shall include, at a minimum, the following:

- (i) a plan for the selection of districts and command areas where activities will be implemented;
- (ii) criteria for selecting specific watercourses to insure that benefits from project activities are shared by a large number of farmers;
- (iii) a training plan;

(iv) a description of administrative procedures for internal monitoring and quality control of design and construction work;

(v) a financial plan; and,

(vi) an evaluation plan."

If the conditions to disbursement herein specified have not been met within 180 days from the date of this Amendatory Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Amendatory Agreement by written notice to the Grantee. "

Article 7: New Article 10 Special Condition - Cultivation of Opium Poppy and Processing of Opium into Heroin

The following new Article 10 "Special Condition - Cultivation of Opium Poppy and Processing of Opium into Heroin", is hereby added after Article 9 of the Project Agreement as amended:

"Article 10 - Special Condition - Cultivation of Opium Poppy and Processing of Opium into Heroin.

The Government of Pakistan (GOP) agrees to undertake appropriate measures to prohibit cultivation of opium poppy and/or processing of opium into heroin or morphine base within any village or area benefiting from this project as hereby amended. In the event that a determination

is made that the cultivation of opium poppy and/or processing of opium into heroin is occurring in a village or area programed to benefit or benefiting from this amendatory Grant, no assistance under this amendatory Grant directly benefiting that village or area shall commence, and if commenced, such assistance shall be suspended until the prohibited activity is eliminated. If the prohibited activity found to exist is not fully eliminated within a specified period of time to be agreed upon by the United States Government and the GOP, all assistance under this amendatory Grant directly benefiting that village or area may be terminated. If, prior to the Project Assistance Completion Date ("PACD") established by A.I.D. for this project, as it may be from time to time amended, it is determined that the prohibited activity is occurring in a village or area that has benefited from the amendatory Grant and the prohibited activity is not eliminated within a period of time to be agreed upon by the United States Government and the GOP, the GOP shall reimburse A.I.D. for all assistance that the GOP has received from A.I.D. under this amendatory Grant which has resulted in direct benefits to that village or area in which the prohibited activity is occurring. Such reimbursement shall be treated as a refund under the provisions of Article 11 (Refunds of Amendatory Grant) of the Project Agreement, as amended.

The provisions of Article 10 shall not, in any case, be applicable to Grant funds made available to the Government of Pakistan under this amendatory Grant for reimbursement for construction of civil works completed prior to June 30, 1981. "

Article 8: New Article 11-Refunds of Amendatory Grant

The following new Article 11 "Refunds of Amendatory Grant" is hereby added after Article 10 of the Amendatory Agreement:

"Article 11: Refunds of Amendatory Grant

Without limitation of other provisions for termination and/or refund set forth in the Project Agreement, should A.I.D. determine that A.I.D. is entitled to reimbursement under provisions of Article 10 of this Amendatory Agreement, A.I.D. may require the Grantee to refund the amount of any Grant disbursement(s) for which there is an entitlement to reimbursement to A.I.D. in U.S. dollars within sixty (60) days after receipt of request therefor. Such refunds paid by the Grantee to A.I.D. shall be considered as a reduction in the amount of A.I.D.'s Grant obligation under the Amendatory Agreement but may be made available for reuse under this Amendatory Grant, if authorized by A.I.D. in writing."

Article 9 : Other Terms and Conditions

All other terms and conditions of the Project Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in the names and delivered as of the day and the year first above written.

GOVERNMENT OF PAKISTAN

BY: Sd/-

NAME: S. Nisar Ali Shah

TITLE: Joint Secretary, Economic
Affairs Division

UNITED STATES OF AMERICA

BY: Sd/-

NAME: Bryant George

TITLE: Deputy Mission Director,
USAID/Pakistan

PROJECT DESCRIPTION

FOR INCLUSION IN PROJECT AGREEMENT AMENDMENT

A. BACKGROUND

The A.I.D.-financed OFWM Project was initiated in October 1976. On the basis of the pilot project, the GOP has decided to expand activities under the OFWM Program and has succeeded in attracting financial support from the ADB and IBRD/IFAD who have agreed to provide \$78 million over the next four years for Pakistan's OFWM Program.

A.I.D.'s continued support of Pakistan's OFWM Program is designed to: (1) reimburse the GOP for watercourse improvements already completed which were eligible for financing under the original project; and (2) overcome institutional deficiencies and correct implementation problems which were identified during the course of the pilot project and which will not be addressed under the other donor projects.

Despite an interruption of United States assistance in 1979, the provinces continued to carry out planned civil works under the original project. During the August 1981 USG-GOP negotiations, the GOP requested reimbursement for these completed civil works. This Amendment provides \$4 million for that purpose.

A number of significant implementation problems and institutional weaknesses have been identified which represent serious constraints to the continued success of Pakistan's OFWM Program. The need for technical assistance in key areas and outside training to meet the manpower needs of the OFWM Program is critical. This Amendment extends the existing project for three years to provide assistance to meet this need.

To date, 1,319 watercourses have been improved under the OFWM project. Over the next four years, an additional 3,300 watercourses are targeted for improvement under the ADB and IBRD/IFAD projects. Alternative institutional mechanisms must be identified to accelerate the implementation of improved watercourse technology throughout the country. This Amendment will finance a local government pilot program to examine the feasibility of using district and local councils as a mechanism for accelerating the implementation of Pakistan's OFWM Program.

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B. PROJECT AMENDMENT ACTIVITIES

This Amendment includes three major components: (1) reimbursement for civil works already completed under the pilot project; (2) training and technical assistance to further strengthen the capability of local institutions to implement Pakistan's OFWM Program; and, (3) a local government pilot program to examine the feasibility of local councils as a mechanism to accelerate the implementation of the OFWM Program. All proposed activities are consistent with the original project purpose.

1. Reimbursement for Watercourse Improvements

The Amendment will provide funding for reimbursement for watercourses already improved and eligible for financing under the original A.I.D.-financed OFWM project, watercourses for which funding was planned but never authorized because of the interruption of assistance to Pakistan in 1979.

2. Local Government Pilot Program

The Project Amendment will fund a pilot study in each of the four provinces to determine the ability of Local Councils to deliver water management services. Implementation of this component will be through the Ministry of Local Government and Rural Development and the provincial Local Government and Rural Development Departments which will select the districts to be included in the project. It will include:

- a. improving approximately 80 watercourses;
- b. establishing water users associations and developing extension water management training for farmers within improved watercourse command areas;

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- c. providing irrigation training to three District Council Engineers in each province; and,
- d. providing water management extension training to two district rural development staff in each province.

3. Institutional Strengthening

a. Technical Assistance - Illustrative

Technical assistance will be funded to refine technology, training, research, and administration of the OFWM Program. Four long-term advisors will be provided for an estimated total of 127 person-months, supplemented by about 48 person-months of short-term assistance during the three-year project period. This assistance will be provided primarily by an inter-disciplinary Water Management team which is likely to consist of an engineer, agricultural economist, agronomist and extension/training specialist. The Federal OFWM Cell will be responsible for coordinating and allocating to the provincial programs all the technical assistance and training provided under the amendment. The Water Management Team will work in the following areas in support of the provincial programs:

- i. testing and refinement of OFWM technologies for water management which take into account provincial differences;
- ii. alternative approaches to promote more efficient utilization of the water saved;
- iii. improving the role of water users associations;
- iv. introducing computer technology for design, construction, and evaluation activities;
- v. improving institutional relationships between agencies involved in water resources management;
- vi. implementing OFWM technology through Local Government;
- vii. strengthening in-country training institutions and handling project-financed participant training activities; and,

viii. performing special studies and evaluations.

In-service training of OFWM field team. will be provided by another team of four to eight field advisors, who will work in the field with provincial field teams and their supervisors for a total period of about 24 person-months. This role will be similar to that of the U.S. Soil Conservation Service advisors under the original project. They will assist the provincial OFWM Directorates in strengthening the ability of the field teams to design and construct watercourse improvements and precision land leveling works.

b. Training - Illustrative

Training will be funded under the amendment to meet the manpower needs of the OFWM Program. Specialized training outside of Pakistan will be given to selected individuals to provide the skills necessary to solve technical and administrative problems encountered in the program. This training will be in fields such as management, irrigation engineering, computer science, and extension as follows:

Training/Observation Tours (2-6 weeks)	100 person-weeks
Short-term Training (6-8 weeks)	150 person-weeks
Non-Degree Formal Study (6-12 months)	10 person-years
Formal Degree Program	10 person-years

In addition, the consultants funded under this amendment will conduct a study of the capacity and capabilities of existing training institutions to meet the training needs of the OFWM Program and will assist several of these institutions to upgrade and expand their programs to meet the OFWM Program's training needs.

C. PROJECT OUTPUTS

At the end of the project, the following probable project outputs will have been realized as a result of the amendment activities:-

1. 1,319 watercourses will have been improved and reimbursement made to the GOP.
2. 75,000 acres of land will have been precisely leveled.

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3. 4 provincial OFWM Directorates will have been created within Provincial Agriculture Departments and will be effectively delivering water management services to farmers.
4. A central OFWM Cell within the Federal Ministry of Food, Agriculture, and Cooperatives will have been created and will be effectively coordinating all OFWM activities in the country.
5. At least 50 OFWM field teams will have been established and provided with on-the-job training.
6. At least 12 district engineers will have been trained in watercourse improvement and precision land leveling, and 8 district rural development staff members will have been trained in water management extension.
7. A pilot study of the effectiveness of local councils as a mechanism for accelerating the implementation of Pakistan's OFWM Program will have been completed.
8. Province-specific models for watercourse improvement will have been developed.
9. Effective extension techniques for promoting the increased productive use of water will be available.
10. A minimum of 80 water users associations will be effectively maintaining water-courses and drains and will have received training in water management technology.
11. Design, inspection, and evaluation work carried out by Federal and provincial authorities will be conducted in a more timely, efficient, and systematic fashion with the aid of computers.
12. A study of the capacity and capability of training institutions with programs related to OFWM activities will have been completed, and at least three of these institutions will have revised their curricula and improved their training programs so that they are more responsive to the manpower needs of the country's OFWM Program.

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13. Approximately 75 participants will have received overseas training in such fields as management, irrigation engineering, computer science, and extension with 10 of the 75 receiving formal degrees.

D. IMPLEMENTATION PLAN

1. Implementation Schedule - Illustrative

Project amendment activities are programed to take place over a period of three years. The current Project Assistance Completion Date (PACD) has been extended from June 30, 1982 to June 30, 1985. Inspections of a random sample of 20% of the watercourses already constructed under the original project, and for which FAR requests are pending or are anticipated, will be completed within six months after the Agreement Amendment is signed. Reimbursements will be made to the GOP throughout the inspection period as inspections are completed with final payment expected to be within one month after completion of all the planned inspections.

A total of twenty-four person-months of technical assistance will be provided to OFWM field teams by short-term expatriate field advisors during the first year of the amendment period. All four long-term advisors on the Water Management Team will arrive in-country in FY 1982. Short-term Water Management Team consultants will provide assistance throughout the three-year amendment period. A.I.D. will direct contract for all technical assistance under the project amendment.

Implementation of the local government component will begin in the first year of the amendment period with the selection of project sites and the training of technical staff. By the end of 1982, civil works will have been initiated and will continue throughout the amendment period. The majority of commodities will be procured during the first and second years of the amendment period. A.I.D. or the long term advisors, as appropriate, will procure all project commodities. Training will take place throughout the three-year period. All participant training activities will be handled by the long-term advisors in consultation with A.I.D. and the federal OFWM cell. An interim and final evaluations are planned.

2. Administrative and Monitoring Arrangements

a. A.I.D. Responsibilities

The Office of Agriculture and Rural Development

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(ARD) will assume overall responsibility for managing the project. The Project Officer will be an Assistant Agricultural Development Officer in the Office of ARD. The Office of Energy and Engineering (E&E) will provide engineering assistance as required and will perform or cause to be performed all the inspections. The office of Project Development and Monitoring will assist ARD in all contracting actions under the project. A United States Direct Hire Supply Advisor will assist on procurement transactions.

b. GOP Responsibilities

The GOP agency responsible for the overall implementation of this project is the Ministry of Food, Agriculture and Cooperatives. The one exception, is the local government pilot program which will be the responsibility of the Ministry of Local Government and Rural Development. A Water Management Cell has been established within the Ministry of Food, Agriculture, and Cooperatives to provide day-to-day monitoring of the project at the federal level and to coordinate the water management activities of the Provincial Agriculture Departments. All technical assistance and training provided under this project amendment will be coordinated and implemented by this Cell. The Cell will be responsible for: (i) ensuring that counterparts are in place for all the technical assistance planned under the amendment; (ii) ensuring that qualified participants are selected for the training planned under the amendment; (iii) ensuring that all pending FAR requests are submitted in a timely fashion; and, (iv) participating in scheduled evaluations.

At the provincial level, OFWM Directorates have been established to perform all administrative, technical, and training functions necessary to support the field teams that work with farmers and farm organizations to improve watercourses. Technical advisors to be funded under this amendment will work closely with the staff of the provincial OFWM directorates as well as with the federal OFWM Cell.

The Ministry of Local Government and Rural Development (LGRD) will be responsible for implementation of the local government component of the project. The Federal LGRD Ministry will assign one officer full-time to the project to monitor all activities planned in all

four provinces and to coordinate with the federal OFWM Cell as well as with all four provincial LGRD Departments. Each provincial LGRD Department will in turn assign one officer full-time to the project to manage the program at the provincial level. These provincial officers will receive appropriate training by the long-term advisors in construction and extension, land leveling, and related aspects of the project. These officers will also work closely with their colleagues in the provincial Agriculture Departments and with the local councils in the districts selected for participation in the pilot program.

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TABLE 1

ILLUSTRATIVE

ON-FARM WATER MANAGEMENT^{a/}SUMMARY OF PROJECT COSTS BY EXPENSE CATEGORY AND SOURCE OF FUNDING
(in 000)

EXPENSE CATEGORY	CUMULATIVE COMMITMENT ^{a/}			FY 1982			LIFE OF PROJECT		
	A.I.D. Dollar Grant (S)	Mondale Rupees (Rs)	GOP (Rs)	A.I.D. Dollar Grant (S)	Mondale Rupees (Rs)	GOP (Rs)	A.I.D. Dollar Grant ^{c/} (S)	Mondale Rupees (Rs)	GOP (Rs)
1. Civil Works	-	-	277,875	4,120	-	-	4,870	-	277,875
2. Technical Assistance	917	-	-	2,345	-	-	4,337	-	-
3. Training	-	-	4,998	200	-	-	990	-	4,998
4. Commodities	-	-	42,736	290	-	-	675	-	42,736
5. Other (research and evaluation, information and dissemination, program administration and program support)	-	-	56,391	45	-	-	45	-	56,391
TOTALS	917	-	382,000 ^{b/}	7,000	-	-	10,917	-	382,000 ^{b/}

^{a/} Rupees added to the existing complementary Mondale rupee project, Strengthening Water Management Project Activities (391-0452), to finance some of the local costs of project amendment activities, are not included in this table nor are loan commitments to date totalling \$7.5 million.

^{b/} After A.I.D. reimbursement for civil works, the net GOP contribution will be Rs 160 million.

^{c/} Subject to the availability of funds to A.I.D. for this purpose, and to the mutual agreement of the parties to proceed at the time of each subsequent increment.