

PUNJAB INCLUSIVE CITIES PROGRAM (PICP)

PROGRAM PARTICIPATION AGREEMENT

BETWEEN

**LOCAL GOVERNMENT AND COMMUNITY DEVELOPMENT DEPARTMENT
GOVERNMENT OF THE PUNJAB**

AND

MUNICIPAL COMMITTEE, ARIFWALA

on

[February- 13- 2026]

Participation Agreement

This Participation Agreement (hereinafter called the PPA) is made on this 13 day of February, 2026.

Between

M/s. Local Government & Community Development Department, Government of the Punjab (hereinafter referred to as 'LG&CDD' which expression shall mean and include its successors in interests).

And

Municipal Committee/ Urban Local Government (ULG) **Municipal Committee, Arifwala**, an institution established under the Punjab Local Government Act 2025 (hereinafter referred to as 'The Grantee' which expression shall mean and include its successors in interests).

WHEREAS

The Government of the Punjab (GoPunjab) has entered into an agreement with the International Development Association and International Bank for Reconstruction and Development (the World Bank) to be known as the Operations Agreement of the Punjab Inclusive Cities Program (hereinafter referred to as 'the Program') in connection with the Financing and Loan Agreement between the Islamic Republic of Pakistan, and the World Bank.

This Program Participation Agreement is hereby executed between the 'LG&CDD & the Grantee' for implementation of components and interventions under the Punjab Inclusive Cities Program (PICP). The Program Development Objective(s) is to provide safely managed water, sanitation and basic hygiene services and to improve the institutional and financial performance of selected urban local governments in Punjab. Program Participation Agreement signed by Head of Municipal Committee/ ULG to demonstrate adherence to program requirements.

Now therefore, the parties hereto agree as follows:

1. That the LG&CDD Punjab Municipal Development Fund Company (PMDFC) will provide Technical Assistance (TA) to the Grantee for institutional development and capacity building support to achieve the Program Disbursement Linked Indicators (DLI – I, III, IV, & V). (***Annex-I***)
2. That the Parties will be liable to act upon the requirements of the Program as stipulated in the Financing Agreement, Program Appraisal Document and the approved Program Operation Manual (POM).
3. That the achievement of the Minimum Access Conditions (MACs) (***provided in Annex-II***) will enable the Grantee to access the Program disbursements allocation as specified in the Program Appraisal Document (PAD). Compliance with Minimum Access Conditions (MACs) will be a pre-condition to access the Program

4. That the Grantee will be assessed against performance in DLIs I, III, IV, and V, as assessed through evidence submitted by the Grantee, as well as through independent verification by PMDFC and an independent verification entity, or set of consultants, as agreed with the World Bank.
5. For DLI I, progress against delivery of infrastructure investments will be assessed. Performance will be assessed for DLIs III and IV against a set of MACs & PMs respectively. in areas such as: a) Human Resource and Gender; b) Sustainable WASH Service Delivery; c) Revenue Management and Financial Sustainability; d) Program Implementation; e) Fiduciary; f) Environment and Social Management; g) Citizen Engagement, Communication, and Accountability; h) Climate Resilient Infrastructure. Qualified Grantees that achieve the MACs will be able to access Program disbursements (% of total Program disbursements envelope) every year, based on scores obtained in the Independent Verification. Program disbursements would be allocated to Grantee and other Grantees proportionate to their performance scores, as per each ULGs share defined in PAD. For DLI V, the performance on revenue collection will be assessed.
6. That the LG&CDD will engage an Independent Verification Agency (IVA) firm to verify Program results in a timely manner to provide the basis for disbursements of funds under the Program to the participating Municipal Committees (ULGs). The assessment results will be shared simultaneously with the Bank and LG&CDD to ensure transparency. IVA results will subsequently be reviewed by GoPunjab's Program Steering Committee and submitted formally to the Bank. These results will then undergo a quality assurance by the Bank. The Bank retains the right to make the final decision whether a DLI has been achieved or not. The aggregate score of the Grantees for DLIs III and IV, revenue performance for DLI V, and infrastructure developed, as assessed by the IVA using the formulae outlined in the PAD will determine the size of Program funds to be disbursed.
7. That the Grantee will provide information/ record and support in terms of documentations, disclosure of materials etc. to the IVA firm.
8. The Grantee will maintain adequate records to reflect the accordance with sound accounting practices and proper coding of the revenues and expenditure of the operations, resources and expenditures in respect of the Program disbursements;
9. That the goods, works and services to be financed from the proceeds of the Program disbursements shall be procured in accordance with GoPunjab procedures as set forth in the POM and the Procurement Plan; and such goods, works and services shall be used exclusively in carrying out the Program disbursements;
10. That the Grantee will ensure a realistic evaluation and qualification criteria in procurement documents and Procurement documents have clear provisions specifying bidder rights including recourse to an independent grievance committee
11. That the Grantee will ensure tariffs collected from WSS are allocated to WSS O&M in its annual budget, and any shortfalls are met from other revenue sources

12. That the Grantee will roll out a hygiene campaign as outlined in the POM with the given timelines
13. That the Grantee will submit any complaints or evidence of fraud involving PROGRAM DISBURSEMENTS expenditures to relevant agencies of the Government of Pakistan and/or the GoPunjab for investigation. **Note:** The World Bank has the independent right to investigate allegations of fraud or corruption involving Program expenditures;
14. That LG&CDD shall have the right to inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites or plans included in the Program disbursements activities, the operations thereof and any relevant records and documents;
15. That LG&CDD shall have the right to obtain all information as they or the Association shall reasonably request regarding the administration, operation and financial management of the Program disbursements activities;
16. That the Program disbursements approved (after fulfillment of Minimum Access Conditions and verification of any other DLI achievements of the IVA) will be released to the Grantee by the Finance Department. The Grantee shall have the right to know the details of approved Program disbursements amount.
17. That the Grantee will use the funds released against Program disbursements only on eligible investments in safely managed water supply and sewerage (WSS), and drainage services, that are being designed by consultants engaged by the PMDFC in municipal infrastructure and service delivery, which include: Safely managed water supply & sanitation (WSS) & drainage services.
18. That the Grantee shall carry out eligible investments and other program activities in accordance with the financial management, procurement, environmental and social management systems acceptable to the Association which are designed to ensure that: (a) the funds released against Program disbursements are used for their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability; and (b) the actual and potential adverse environmental and social impacts of the Program are identified, avoided, minimized, or mitigated as the case may be, all through an informed decision-making process.
19. That the Grantee will provide bi-annual and annual reports on financial and Program implementation, safeguard management, grievance redress, and other relevant information throughout Program implementation.
20. That the Grantee will establish the WATSAN unit with the full core staff according to organogram in POM to manage the investments in coordination with Finance and other sections with in the ULG appoint focal persons for Environment and Social Management (ESFPs) throughout Program implementation.

21. The Grantee shall make all necessary arrangements to achieve the Disbursement Linked Indicators (DLIs), Minimum Access Conditions (MACs), and Performance Measures as stipulated under the Program Appraisal Document (PAD)/ Program Operation Manual (POM).
22. The Grantee, with the support of PMDFC, shall prepare and implement Own Source Revenue (OSR) enhancement plans, undertake all necessary actions and make requisite institutional and administrative changes to increase OSR, and shall ensure a sustained annual increment therein. The Grantee shall submit periodic reports to PMDFC on the progress of OSR enhancement measures. Failure to comply with these obligations may affect the Grantee's eligibility for annual grants under the Program.
23. The Grantee shall allocate adequate budgetary resources for the operation and maintenance of the infrastructure (including WSS) developed through the Program disbursements, and shall ensure its sustainability beyond the currency of the Program, including through own source revenues and tariffs on WSS services
24. That the Grantee will appoint dedicated staff to operate, maintain, and regularly update the E-Governance systems, including the Grievance Redress Mechanism (GRM), the ULG's dynamic website, the Management Information System (MIS) for WSS Services with modules on WSS, energy consumption, financial management, customer management, and the Local Government Financial Management Information System (LGFMIS) and shall ensure the functionality of these systems.
25. The Grantee shall ensure that the LGFMIS is fully implemented and operational, that all financial data is accurately and completely entered, regularly updated, and reconciled on monthly and annual basis, and that the system is consistently used for all financial reporting and auditing purposes. Failure to comply with these obligations may affect the Grantee's eligibility under the Minimum Access Conditions and Performance Measures of the Program.
26. The Grantee shall be responsible for sustaining and ensuring the continued functionality of all E-Governance systems beyond the currency of the Program.
27. That the Grantee will adopt and implement ESSA's recommendations, Environmental and Social Compliance Framework (ESCF) and associated SOPs and provide compensation of assets and applicable allowances to the affectees as per Resettlement Planning Framework (RPF) of ESCF prior to carrying out any eligible investments.
28. That the nominated ESFPs of Grantee with the technical assistance of PMDFC will conduct screening of eligible investments for potential environmental and social safeguard impacts.
29. That the Grantee with the technical assistance of PMDFC will ensure the preparation and implementation of Environmental and Social Assessments, Resettlement Action Plans and other management plans for social and environmental impacts.
30. That the Grantee shall ensure the plantation of indigenous trees as compensation/enhancement measure/buffer zone of WWTP according to the tree

plantation plan of Environmental and Social Safeguard instruments. The ULG shall enter into a MOU with the contractor, clearly defining the contractor's responsibilities for tree planting, post planting care and maintaining for a period one year at the designated site, with the ULG overseeing and monitoring. The MOU shall be the part of the contract agreement.

31. That the Grantee will improve enforcement of labour and gender-related laws throughout Program implementation.
32. The Grantee shall submit the draft Contractor's Contract Agreement to the PMDFC Environment and Social Management (E&S) Section for review, incorporation of necessary updates, and clearance of Environmental and Social (E&S) management aspects prior to contract signing. Following execution of the Contract Agreement, the Grantee shall provide PMDFC with one hard copy and one soft copy of the duly signed Contract Agreement.
33. The Grantee shall obtain approval from the PMDFC Environment and Social Management (E&S) Section before releasing any Environment and Social Management-related payments to the Contractor. The Grantee shall also ensure that Contract Agreement includes a provision allowing for deduction of five percent (5%) of each IPC amount in the event of persistent non-compliance¹ with the applicable E&S safeguard instruments. In addition, the overall IPC amount will be withheld until such non-compliance is fully complied with.
34. That the Grantee shall promptly report any incident or accident relating to the Project that has, or is likely to have, a significant adverse effect on the environment, affected communities, the public or workers, including those resulting in death or significant injury to workers or the public; acts of violence, discrimination or protest; unforeseen impacts to cultural heritage or biodiversity to PMDFC and shall provide the necessary data/documents/reports.
35. That the Grantee with the technical assistance of PMDFC shall obtain all necessary statutory approvals and No Objection Certificates (NOCs) from relevant authorities prior to commencing any eligible investment, in compliance with applicable laws and ESCF.
36. That the Grantee will implement the following developed by PMDFC:
 - a. Communication Strategy
 - b. Public Consultation Framework
 - c. Capacity Building Programs
37. That the Grantee will notify, and implement Standard Operating Procedures for Physical Cultural Resources, and Health, Safety, Social and Environment throughout Program implementation, developed by PMDFC.

¹ Persistent non-compliance means repeated failure to comply with applicable Environmental and Social (E&S) safeguard requirements. Upon the first occurrence, a written warning shall be issued to the Contractor. If the same or similar non-compliance occurs again, it shall be considered persistent, and five percent (5%) of the relevant IPC amount may be deducted. In addition, the overall IPC amount will be withheld until such non-compliance is fully complied with.

38. That the Grantee will, with support from PMDFC, ensure generation and monitoring of environmental data, and coordination with relevant agencies throughout Program implementation.
39. That the Grantee will develop Annual Infrastructure Investment Plans listing all planned expenditures against Program disbursements, and reflect such Plans in Annual ULG budgets after the Association's review and agreement.
40. That the Grantee will develop and submit to PMDFC two Progress Reports a year, (which are required to be received in June and December) which provide content as specified in the POM. The Grantee will disseminate finalized reports on their web site.
41. The responsibility to follow legal and codal formalities as prescribed by the Government shall rest with the Grantee.
42. That if at any stage of Program implementation, it is felt that the Grantee is not interested in continuing the agreed activities or if any dispute, controversy, or question be raised between the parties at any time as to the interpretation or compliance or non-compliance of the PPA, it shall first be settled through negotiation between the parties. Failing this, the matter shall be referred to the Chairman P&D who will appoint any member (other than LG&CDD representative) of the Steering Committee for a decision, which shall be final and binding on both the parties.

In witness whereof both the parties have set their hand on the present PPA on the day and year as mentioned above.

LG&CDD

Secretary

Special Secretary

Witness

Additional Secretary (Dev.)

Municipal Committee, Arifwala

**Administrator/Assistant Commissioner
Municipal Committee, Arifwala**

Chief Officer

Municipal Committee, Arifwala

Witness

**Municipal Officer - Infrastructure
Municipal Committee, Arifwala**

Disbursement Linked Indicators (DLIs) of the Program

| Purpose of DLI | DLI |
|--|--|
| Results Area 1: Safely managed water, sanitation and drainage and basic hygiene services | |
| Provide safely managed water, sanitation and drainage and basic hygiene services in 14 ULGs. | DLI 1: Safely managed WSS connections provided in eligible ULGs ² . |
| Results Area 2: Institutional strengthening and financial sustainability | |
| Ensure that the WATSAN units in the Program ULGs fulfill minimum necessary conditions to provide services in a sustainable manner. | DLI 3: Participating ULGs (other than Chakwal and Kasur ULGs) meeting Minimum Access Conditions for WSS service delivery |
| Ensure that the governance, institutional, and financing mechanisms for service delivery and cost recovery in Program ULGs are adequate to support sustained service delivery. | DLI 4: Eligible ULGs have improved scores on Institutional Performance Indicators |
| Incentivize increased revenue collection in Program ULGs to support WSS O&M. | DLI 5: Increased revenues in Eligible ULGs from taxes, fees, and tariffs compared to Fiscal Year 23-24. |

Note: DLIs 2 and 6 are not relevant to this agreement and have been deleted.

² Eligible ULGs for DLI-1, 4 & 5, refer to ULGs that have met their minimum access conditions for that fiscal year

Minimum Access Conditions & Performance Measures

| Area | DLI 3—Mandatory Conditions | DLI 4—Performance Measures |
|--|--|--|
| Human Resources & Gender | <ul style="list-style-type: none"> • WATSAN unit in ULG is notified and MO WATSAN services is posted and focal persons for E&S are in place. • (<i>Year 2 Onwards</i>) WATSAN unit with full core staff according to organigram in POM is in place. • All provincially appointed staff is in place with tenure protection, subject to satisfactory biannual performance reviews. | <ul style="list-style-type: none"> • Capacity-building activities conducted for WATSAN as per annual Program training plan (3 points). • A female complaint desks is established and maintained (4 points). • Institutionalization of Harassment of Women at the Workplace Act and implementation of relevant by-laws (3 points). • ULG female staff are provided with adequate gender-responsive facilities (3 points). <p>Total: 13 points</p> |
| Sustainable WASH Service Delivery | <ul style="list-style-type: none"> • (<i>Y2 Onwards</i>) ULGs' annual budgets include adequate allocations for O&M of WSS networks. | <ul style="list-style-type: none"> • Tracking and reporting of cost centers for expenditures on water, sewerage, and drainage services (5 points). • Operating ratio target (defined in the PAP) from the WSS cost recovery plan for the year is achieved (30 points). • An MIS for WASH services is operational and includes modules on WSS operations, energy consumption, FM (including tariffs), consumer satisfaction, and asset management. The asset management system for WSS is a georeferenced database tracking for each asset its O&M plan and expenditure and is updated regularly (15 points). <p>Total: 50 points</p> |
| Revenue Management & Financial Sustainability | <ul style="list-style-type: none"> • (<i>Y2 Onwards</i>) All urban built-up area is declared as non-zero-rated area for UIPT collection. • (<i>Y2 Onwards</i>) Revenue development plan (including WSS cost recovery) developed, informed by stakeholder consultations on rate revision proposals, and updated as required. • (<i>Y2 Onwards</i>) ensure complete budget allocation for annual O&M of WSS services. | <ul style="list-style-type: none"> • LGFMIS is updated to include revenue performance including a GIS based database for key revenue sources (i.e., water supply and sewerage tariffs, land use approvals, building plan approvals, municipal shops, and fee from general bus stands) (10 points). • ULG notifies the revised tax proposals according to the revenue development plan and ensure proper execution as per revenue development plan (15 points). <p>Total: 25 points</p> |

| Area | DLI 3–Mandatory Conditions | DLI 4–Performance Measures |
|---|--|--|
| Program Implementation | <ul style="list-style-type: none"> • MC chairperson/administrator signs Program participation agreement. | |
| Fiduciary | <ul style="list-style-type: none"> • ULG has established a functional procurement committee and procurement cell for relevant level of procurement in place (per Punjab Public Procurement rules). • ULG has graduated/transitioned to e-procurements. • ULG has functional e-LGFMIS in place, and is generating cash books and financial statements. • (<i>Y2 Onwards</i>) ULG has submitted annual financial statements as per approved framework, to the satisfaction of auditors for the previous FY. • (<i>Y2 Onwards</i>) There are no adverse or disclaimed audit opinion for previous FY. | |
| Environment & Social Management | <ul style="list-style-type: none"> • ULG has designated E&S management focal persons. • (<i>Y2 Onwards</i>) ULG has prepared and is implementing, as applicable, Environmental and Social Assessments (ESAs) and Resettlement Plans (RPs): <ul style="list-style-type: none"> ○ ESA and RPs finalized by the completion of bidding documents and ESAs included as a part of bidding package. ○ E&S costs included in PC-1. ○ Compensation per RPs completed before start of construction. ○ ESAs implemented throughout the project construction. | |
| Citizen Engagement, Communication & Accountability | <ul style="list-style-type: none"> • Citizen consultations have been held on proposed investments, with at least one consultation with women. • Functional GRM is in place. | <ul style="list-style-type: none"> • ULG implements BCC annual campaign plan (5 points). Total: 5 points |

| Area | DLI 3–Mandatory Conditions | DLI 4–Performance Measures |
|---|---|--|
| | <ul style="list-style-type: none"> • ULG operational websites are online. • <i>(Y2 Onwards)</i> ULG develops a BCC campaign plan for the entire duration of the Program. • <i>(Y2 Onwards)</i> Information from the GRM, MIS, Right to Information, annual budgets, and procurement are regularly published on ULG websites. | |
| Climate-Resilient Infrastructure | | <ul style="list-style-type: none"> • Climate Resilient Investment Planning Framework is implemented and updated as necessary (4 points). • Energy management plan is developed and/or implemented and updated as necessary (3 points). <p>Total: 7 points</p> |