

CONFORMED COPY

CREDIT NUMBER 2512 PAK

Project Agreement

(Northern Resource Management Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

AZAD JAMMU AND KASHMIR

Dated October 15, 1993

CREDIT NUMBER 2512 PAK

PROJECT AGREEMENT

AGREEMENT, dated October 15, 1993, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and AZAD JAMMU AND KASHMIR acting by its President (AJK).

WHEREAS (A) by the Development Credit Agreement of even date herewith between the Islamic Republic of Pakistan (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twenty million four hundred thousand Special Drawing Rights (SDR 20,400,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that AJK agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) the proceeds of the credit provided for under the Development Credit Agreement will be made available to AJK; and

WHEREAS AJK, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

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

ARTICLE II

Execution of the Project

Section 2.01. (a) AKJ 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 and resource management 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 and AJK shall otherwise agree, AJK shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

(c) AJK shall, for the purposes of the Project, open and maintain in dollars a special deposit account in the National Bank of Pakistan on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

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

Section 2.03. AJK shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the 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.

Section 2.04. (a) AJK shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Credit.

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

ARTICLE III

Financial and Other Covenants

Section 3.01. (a) AJK shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition in respect of the Project.

(b) AJK shall:

- (i) have such records and accounts including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

- (ii) furnish to the Association as soon as available, but in any case not later than nine months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records and accounts as well as the audit thereof, as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, AJK shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 3.02. AJK shall ensure that, by September 30, 1996, a diploma from AJK's Agriculture Training Institute will have become a pre-requisite for appointment to Field Assistant positions in DOA.

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 becomes effective.

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

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date 20 years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify AJK 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 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, telegram, cable, telex or radiogram 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. 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:

INDEVAS
Washington, D.C.

Telex:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

For AJK:

Planning and Development Department
Muzaffarabad
Azad Jammu and Kashmir

Telex:

58 3843

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 AJK, or by AJK on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the Additional Chief Secretary, Planning and Development Department (ACS, P&D) or such other person or persons as ACS, P&D shall designate in writing, and ACS, P&D shall furnish to the Association 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 the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ D. Joseph Wood

Regional Vice President
South Asia

AZAD JAMMU AND KASHMIR

By /s/ Agha Ghazanfar

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

2. To the extent practicable, contracts for vehicles and equipment and materials shall be grouped in bid packages estimated to cost the equivalent of \$50,000 or more each.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Pakistan may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Civil works and, except as provided in paragraph 2 of this Part C, field works and forest planting may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Field works and forestry planting estimated to cost less than the equivalent of \$50,000 per package, up to an aggregate amount not to exceed the equivalent of \$5,700,000, may be carried out on a force account basis in accordance with, and subject to, the provisions of paragraph 3.6 of the Guidelines.

3. Equipment and materials estimated to cost less than the equivalent of \$50,000 per contract, up to an aggregate amount not to

exceed the equivalent of \$2,400,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 3 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

1. In order to assist AJK in carrying out the Project, AJK shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, AJK shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, AJK shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$50,000 equivalent each. However, this exception to prior Association review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association and to amendments of contracts raising the contract value to \$50,000 equivalent or above.

SCHEDULE 2

Implementation Program

A. Project Coordination and Implementation

1. P&D shall have overall responsibility for coordinating project activities.

2. Specific responsibility for implementing the Project shall be assigned as follows:

- (a) for Parts A.1 and A.2 of the Project overall, to MOA&AH;
- (b) for Part A.3 of the Project, to DOF;
- (c) for Part A.4 of the Project, to P&D;
- (d) for Part B of the Project, to DOA, DOAH and DOF jointly as appropriate; and
- (e) for Part C of the Project, to PWD.

B. Transfer of Input Production and Distribution Activities to Private Sector

AJK shall offer for transfer input production and distribution activities to the private sector and reduce related subsidies under Part A.1 (b) of the Project in accordance with a phased program satisfactory to the Association which shall provide for:

- (1) the reduction of subsidies as follows: (a) on potato seed, by 20% in each of the years beginning July 1, 1994, July 1, 1995 and July 1, 1996; (b) on vegetable seed, by 15% in each of the years beginning July 1, 1994, July 1, 1995, July 1, 1996 and July 1, 1997; (c) on fruit seedling, by 15% in each of the years beginning July 1, 1994 and July 1, 1995; (d) on bare root forest seedling, by 10% in each of the years beginning July 1, 1994 and July 1, 1995, and by 20% in each of the years beginning July 1, 1996, July 1, 1997 and July 1, 1998; and (e) on container forest seedling, by 15% in the year beginning July 1, 1994, and by 20% in each of the years beginning July 1, 1995, July 1, 1996, July 1, 1997 and July 1, 1998;
- (2) the transfer of production and distribution activities as follows: (a) in respect of one potato seed farm in each of the years beginning July 1, 1994 and July 1, 1996; (b) in respect of two vegetable seed farms in each of the years beginning July 1, 1994, July 1, 1995 and July 1, 1996, and in respect of one such farm in the year beginning July 1, 1997; (c) in respect of five fruit seedling farms in each of the years beginning July 1, 1995 and July 1, 1996, and in respect of four such farms in each of the years beginning July 1, 1997 and July 1, 1998; (d) in respect of 11 ha. of land producing forest seedling in the year beginning July 1, 1995, 16 ha. of such land in the year beginning July 1, 1996, 26 ha. of such land in the year beginning July 1, 1997, and 16 ha. of such land in the year beginning July 1, 1998; and (e) in respect of thirty-one fertilizer and seed stores in the year beginning July 1, 1995; and
- (3) redeployment of about 290 DOA, DOAH and DOF staff, released as a result of the transfer of input production and distribution activities under (2) above, for the purposes of the Project as follows: about 145 such staff in the year beginning July 1, 1995; about 70 such staff in the year beginning July 1, 1996; and the remaining such staff in the year beginning July 1, 1997.

C. Reorganization of DOAH and DOF

AJK shall carry out the reorganization of DOAH and DOF under

Parts A.2 (a) and A.3 (a), respectively, of the Project in accordance with a phased program satisfactory to the Association.

D. Vaccination Fee Revolving Fund

AJK shall ensure that all vaccination fees recovered under the expanded disease prevention program introduced under Part A.2 (b) of the Project will be deposited in a revolving fund, and will be utilized for purchasing future requirements of vaccine supplies, all under arrangements satisfactory to the Association.

E. Progress Reports

AJK shall, not later than thirty days after the end of each quarter of each year of Project implementation, furnish to the Association consolidated progress reports on the Project for such quarter in form and substance satisfactory to the Association.

F. Mid-term Review

AJK shall with the participation of the Association and not later than December 31, 1995, carry out a mid-term review of the Project, and shall make such adjustments in the activities to be carried out under the Project and in the related organizational and institutional arrangements as shall be warranted in the light of such review and agreed with the Association.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to the Development Credit Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to the Development Credit Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,600,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, AJK shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of AJK, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as AJK shall have requested.

(b) (i) For replenishment of the Special Account, AJK shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

- (ii) Prior to or at the time of each such request, AJK shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of AJK, withdraw from the Credit Account and deposit into the Special Account such amount as AJK shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by AJK out of the Special Account, AJK shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

- (a) if, at any time, the Association shall have determined that all further withdrawals should be made by AJK directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of the Development Credit Agreement; or

- (b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to AJK. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, AJK shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until AJK has provided such evidence or made such deposit or refund, as the case may be.

- (b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, AJK shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

- (c) AJK may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the

Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of the Development Credit Agreement.

