

CONFORMED COPY

CREDIT NUMBER 3050 PAK

Project Agreement

(Second Social Action Program Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

PROVINCE OF BALOCHISTAN

and

PROVINCE OF PUNJAB

and

PROVINCE OF SINDH

and

NORTH WEST FRONTIER PROVINCE

and

AZAD JAMMU AND KASHMIR

and

FEDERALLY ADMINISTERED TRIBAL AREAS

Dated May 28, 1998

CREDIT NUMBER 3050 PAK

PROJECT AGREEMENT

AGREEMENT, dated May 28, 1998 between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and PROVINCE OF BALOCHISTAN acting by its Governor (Balochistan) and PROVINCE OF PUNJAB acting by its Governor (Punjab) and PROVINCE OF SINDH acting by its Governor (Sindh) and NORTH WEST FRONTIER PROVINCE acting by its Governor (NWFP) and AZAD JAMMU AND KASHMIR acting by its President (AJK) and the FEDERALLY ADMINISTERED TRIBAL AREAS acting by the Governor of NWFP (FATA).

WHEREAS 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 one hundred eighty-four million five hundred thousand Special Drawing Rights (SDR 184,500,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Balochistan, Punjab, Sindh and NWFP (the Provinces), AJK and FATA agree to undertake such obligations toward the Association as are set forth in this Agreement;

WHEREAS the Provinces, AJK and FATA, 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) The Provinces, AJK and FATA declare their 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 their respective activities under Parts A (ii), (iii) and (iv), C (ii), (iii) and (iv), D.1 (b), D.2 (b), (c) and (d), and E (ii), (iii) and (iv) of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, education, health, population welfare and rural water supply and sanitation practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for such activities.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and the Provinces, AJK and FATA shall otherwise agree, the Provinces, AJK and FATA shall carry out their respective activities under the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. The Provinces, AJK and FATA shall make Grants under Parts C (ii), (iii) and (iv) of the Project, respectively, only on the terms and conditions and according to the procedures set forth or referred to in Schedule 1 to this Agreement.

Section 2.03. 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 3 to the Development Credit Agreement.

Section 2.04. (a) The Provinces, AJK and FATA 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 and their respective activities under Parts A (ii), (iii) and (iv), C (ii), (iii) and (iv), D.1 (b), D.2 (b), (c) and (d), and E (ii), (iii) and (iv) of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Provinces, AJK and FATA shall each, with regard to their respective activities under Parts A (ii), (iii) and (iv), C (ii), (iii), and (iv), D.1 (b), D.2 (b), (c) and (d), and E (ii), (iii) and (iv) of the Project.

(i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and each of the Provinces, AJK or FATA, as the case may be, a plan designed to ensure the continued achievement of the Project's objectives; and

(ii) afford the Association a reasonable opportunity to exchange views with each of the Provinces, AJK or FATA, as the case may be, on said plan.

Section 2.05. (a) The Provinces, AJK and FATA shall, at the request of the Association, exchange views with the Association with regard to the progress of their respective activities under Parts A (ii), (iii) and (iv), C (ii), (iii) and (iv), D.1 (b), D.2 (b), (c) and (d), and E (ii), (iii) and (iv) of the Project, the performance of their obligations under this Agreement and other matters relating to the purposes

of the Credit.

(b) The Provinces, AJK and FATA shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of their respective activities under Parts A (ii), (iii) and (iv), C (ii), (iii) and (iv), D.1 (b), D.2 (b), (c) and (d), and E (ii), (iii) and (iv) of the Project, the accomplishment of the purposes of the Credit, or the performance by the Provinces, AJK and FATA of their respective obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) The Provinces, AJK and FATA shall establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with sound accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures for and in connection with the carrying out of Part A (ii), (iii) and (iv), C (ii), (iii) and (iv), D.1 (b), D.2 (b), (c), (d), and E (ii), (iii), (iv) of the Project.

(b) The Provinces, AJK and FATA shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with auditing principles acceptable to the Association 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 six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) above for such year as so audited, and (B) an opinion on such statements and a 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 such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

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 the Provinces, AJK and FATA 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 twenty 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 the Provinces, AJK and FATA 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:

248423 (MCI) or
64145 (MCI)

For Balochistan:

The Additional Chief Secretary
Planning and Development Department
Government of Balochistan
Quetta, Pakistan

Cable address:

DEVELOPMENT
Quetta, Pakistan

Telex:

7875 BLNSE PK

For Punjab:

The Chairman
Planning and Development Board
Government of Punjab
Lahore, Pakistan

Cable address:

DEVELOPMENT
Lahore, Pakistan

Telex:

82-04-4868
Punjab Secretariat
Lahore, Pakistan

For Sindh:

The Additional Chief Secretary
Planning and Development Department
Government of Sindh
Karachi, Pakistan

Cable address:

DEVELOPMENT SINDH
Karachi, Pakistan

Telex:

952-23950

For NWFP:

The Additional Chief Secretary
Planning and Development Department
Government of North West Frontier Province

Peshawar, Pakistan

Cable address:

Telex:

DEVELOPMENT
Peshawar, Pakistan

952-52371

For AJK:

The Additional Chief Secretary
Planning and Development Department
Government of Azad Jammu and Kashmir
Muzaffarabad, Azad Jammu and Kashmir

For FATA:

The Additional Chief Secretary
Planning and Development Department
Government of North West Frontier Province
Peshawar, Pakistan

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 the Provinces, AJK and FATA may be taken or executed: (a) on behalf of Balochistan, Sindh, NWFP, AJK and FATA, by their respective Additional Chief Secretaries (Development), Planning and Development Department; and (b) on behalf of Punjab, by the Chairman of its Planning and Development Board, or such other person or persons as the Provinces, AJK and FATA shall designate in writing, and the Provinces, AJK and FATA 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 Islamabad, Islamic Republic of Pakistan, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Sadiq Ahmed

Acting Regional Vice President
South Asia

PROVINCE OF BALOCHISTAN
PROVINCE OF PUNJAB
PROVINCE OF SINDH
NORTH WEST FRONTIER PROVINCE
AZAD JAMMU AND KASHMIR
FEDERALLY ADMINISTERED TRIBAL AREAS

By /s/ Zaheer Sajjad

Authorized Representative

SCHEDULE 1

Procedures and Terms and Conditions of Grants

1. Grants under Parts C (ii), (iii) and (iv) of the Project shall satisfy the

following criteria:

(a) grants may be made to develop and test with respect to social services: (i) innovative approaches to improving their quality; (ii) effective mechanisms for their delivery; (iii) practical strategies for expansion of their coverage; and (iv) modern methods of mobilizing communities so as to improve beneficiary participation in their design and implementation (the "Grant activities");

(b) grants may be made to government agencies, non-governmental organizations (NGOs), academic and research institutions, foundations, community organizations and private institutions (the "beneficiaries") to be selected based on the following, among other, criteria: (i) demonstrated effectiveness in organizing and delivering community-based services; (ii) need for, and ability to make effective use of, additional funding; (iii) capacity for working in partnership with government social sector institutions; and (iv) willingness to test and analyze the effectiveness of different innovations;

(c) grants may be made to beneficiaries which:

(i) have been registered or incorporated for at least the previous three years or such other period as the Association shall otherwise agree in an individual case on an exceptional basis;

(ii) have a satisfactory performance record in the particular field of endeavor that is being funded;

(iii) have prior experience in the geographic area to be served (e.g., a District or Tehsil) or such other geographic areas as the Association shall otherwise agree in an individual case on an exceptional basis;

(iv) can produce evidence that their past performance has been satisfactory from the perception of the community;

(v) have sound accounting procedures and financial record keeping; and

(vi) can produce evidence of their capacity to take on the scope of the work required by the grant;

(d) the cost of a Grant activity shall not be less than the equivalent of \$50,000; and

(e) proposals for such grants shall have technical merits, and the activities to be financed out of such grants shall have a geographic coverage, all satisfactory to the Association and the Province concerned or AJK or FATA, as the case may be.

2. No expenditures for goods or services required for a Grant activity shall be eligible for financing out of the proceeds of the Credit unless the Grant for such Grant activity shall have been approved by the Association and such expenditures shall have been approved by the Association and shall have been made not earlier than ninety days prior to the date on which the Association shall have received the application and information required under paragraph 3 (a) of this Schedule in respect of such activity.

3. (a) When presenting a Grant to the Association for approval, the Province concerned or AJK or FATA, as the case may be, shall furnish to the Association an application, in form satisfactory to the Association, together with: (i) a description and appraisal of the Grant activity, including a description of the expenditures proposed to be financed; and (ii) such other information as the Association shall reasonably request.

(b) Applications made pursuant to the provisions of subparagraph (a) of this paragraph shall be presented to the Association on or before December 31, 2001.

4. Grants shall be made on terms whereby the Province concerned or AJK or FATA, as the case may be, shall obtain, by written contract with the beneficiaries or by other appropriate legal means, rights adequate to protect the interests of the Association

and the Province concerned or AJK or FATA, as the case may be, including the right to:

(a) require the beneficiary to carry out and operate the grant activity with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Credit shall be purchased in accordance with the provisions of Part C.3 of Section I of Schedule 3 to the Development Credit Agreement; and (ii) such goods and services shall be used exclusively in the carrying out of the grant activity;

(c) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such goods, works, plants and construction included in the grant activity, the operation thereof, and any relevant records and documents;

(d) require that: (i) the beneficiary shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the beneficiary to replace or repair such goods;

(e) obtain all such information as the Association or the Province concerned or AJK or FATA, as the case may be, shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the beneficiary and to the benefits to be derived from the grant activity; and

(f) suspend or terminate the right of the beneficiary to the use of the proceeds of the Credit upon failure by such beneficiary to perform its obligations under the contract with the Province concerned or AJK or FATA, as the case may be. SCHEDULE 2 Implementation Program 1. The Provinces, AJK and FATA shall not make any material changes to the respective medium-term sector strategies adopted by them, except with the prior concurrence of the Association and after taking into account its comments and recommendations on the proposed modifications.

2. (a) Each Province, AJK and FATA shall:

(i) not later than March 31 of each Fiscal Year of Project implementation or such later date as the Association may agree, furnish or cause to be furnished to the Association, for its assessment and review, each proposal for activities to be carried out by such Province or AJK or FATA, as the case may be, under a Provincial Subprogram or an AJK Subprogram or a FATA Subprogram, as the case may be, in the next following Fiscal Year, supported by an operational plan, setting forth details of such activities, including the policy reforms and other measures to be implemented, the expenditures to be incurred and the procurement plan to be followed;

(ii) not later than June 30 of such Fiscal Year or such later date as the Association may agree, furnish or cause to be furnished to the Association, for its approval, each such proposal modified in a manner satisfactory to the Association, taking into account its comments and recommendations;

(iii) carry out or cause to be carried out each such proposal in form and substance as approved by the Association and in a manner satisfactory to the Association; and

(iv) not make any material changes to any such proposal whether consequent upon the modification of the relevant medium-term strategy or otherwise, except with the prior concurrence of the Association.

(b) Except as the Association and the Provinces, AJK and FATA shall otherwise agree, the Association shall not approve any proposal furnished to it under

subparagraph (a) above, unless and until:

(i) the Association shall have been satisfied with the progress made to-date in the carrying out of the current activities under the Subprogram to which the proposal relates, and with the implementation of the SAP and the Project, all on the basis of the indicators referred to in paragraph 13 (a) of Schedule 6 to the Development Credit Agreement; and

(ii) the Province concerned or AJK or FATA, as the case may be, shall have prepared and furnished to the Association the expenditure program and the financing plan for the SAP for the following Fiscal Year and the contribution of the Province concerned or AJK or FATA, as the case may be, relating thereto, all satisfactory to the Association.

3. The Provinces, AJK and FATA shall, with respect to each Subprogram for which they are respectively responsible:

(a) (i) select sites for new, expanded and/or upgraded facilities; and

(ii) recruit, post and transfer staff, all in accordance with merit-based criteria satisfactory to the Association; and

(b) for each calendar year of Project implementation:

(i) have a review carried out by an independent third party acceptable to the Association, of the Association under terms of reference satisfactory to the Association, of the activities referred to in subparagraph (a) above and carried out during such calendar year; and

(ii) furnish to the Association as soon as available, but in any case not later than March 31 of each year, a copy of the report of such review, of such scope and in such detail as the Association shall have reasonably requested.

4. The Provinces, AJK and FATA shall, with respect to each Subprogram for which they are respectively responsible:

(a) by June 30, 1998 develop and implement procedures, satisfactory to the Association, for monitoring staff absenteeism at service delivery facilities and for taking remedial actions consistent with the terms and conditions of employment of such staff; and

(b) for each calendar year of Project implementation:

(i) have a review carried out by an independent third party acceptable to the Association, of the Association under terms of reference satisfactory to the Association, of the staff absenteeism referred to in subparagraph (a) above and occurring during such calendar year; and

(ii) furnish to the Association as soon as available, but in any case not later than March 31 of each year, a copy of the report of such review, of such scope and in such detail as the Association shall have reasonably requested.

5. Each Province or AJK or FATA, as the case may be, shall ensure that sufficient funds will be released in a timely manner, but in any case not later than the fifteenth day of the beginning of each quarter, for the purposes of implementing such activities under each approved Subprogram for which it is responsible as are to be carried out in such quarter, consistently with the procurement and utilization plans for the non-salary recurrent budget, new recruitment and the development budget for such Subprogram.

6. Each Province or AJK or FATA, as the case may be, shall, with respect to each Subprogram for which it is responsible, make arrangements, satisfactory to the Association, for the continuous random review of all procurement, and all procurement

procedures and processes, by an independent third party acceptable to the Association under terms of reference satisfactory to the Association.

7. Each Province or AJK or FATA, as the case may be, shall, through the relevant SAP Cell and not later than 45 days after the end of each quarter of each Fiscal Year of Project implementation, furnish to the Association, in form and substance satisfactory to the Association, a progress report on the implementation of each Subprogram for which it is responsible, during such quarter.

8. Each Province or AJK or FATA, as the case may be, shall ensure that an adequate number of qualified service delivery staff are available to assist in the implementation of each Subprogram and shall not take any action to restrict or prohibit the recruitment of such staff.

9. Each Province or AJK or FATA, as the case may be, shall advertise twice yearly for proposals and will subsequently award grants to eligible entities whose proposals meet agreed criteria for the Participating Development Program under Part C of the Project.

10. The Provinces, AJK and FATA shall participate with the Borrower in performing the obligations set forth in paragraph 13 of Schedule 6 to the Development Credit Agreement.

