

CONFORMED COPY

CREDIT NUMBER 2883 PAK

Project Agreement

(Northern Health Program Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

AZAD JAMMU AND KASHMIR

Dated July 18, 1996

CREDIT NUMBER 2883 PAK

PROJECT AGREEMENT

AGREEMENT, dated July 18, 1996, 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 eighteen million four hundred thousand Special Drawing Rights (SDR 18,400,000), 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;

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) AJK 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 in the territory of AJK the activities under the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and health practices, in conformity with the Health Policy of AJK dated April 3, 1996, 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 in the territory of AJK the activities under the Project in accordance with the Implementation Program set forth in Schedule 1 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 3 to the Development Credit Agreement.

Section 2.03. (a) 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.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation upon the provisions of paragraph (a) of this Section, AJK shall:

- (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 AJK, a plan for the future operation of the Project in the territory of AJK; and
- (ii) afford the Association a reasonable opportunity to exchange views with AJK on said plan.

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.

Section 2.05. (a) AJK shall make Grants only on the terms and conditions and according to the procedures set forth in Schedule 2 to this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) AJK shall maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of its activities under the Project, of the departments or agencies of AJK responsible for carrying out such activities.

- (b) AJK shall:
- (i) have its records and accounts referred to in paragraph (a) above 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.

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:

Additional Chief Secretary
Planning and Development Department
Government of Azad Jammu and Kashmir
Muzaffarabad
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 AJK may be taken or executed by the Additional Chief Secretary, Planning and Development Department or such other person or persons as AJK shall designate in writing, and AJK 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/ Mieko Nishimizu
Acting Regional Vice President
South Asia

AZAD JAMMU AND KASHMIR

By /s/ Mansoor Elahi
Authorized Representative

SCHEDULE 1

Implementation Program

1. AJK shall:

(a) by March 31 of each Fiscal Year during the implementation of the Project, or such later date as may be acceptable to the Association, provide or cause to be provided to the Association, for its assessment and review, each proposed Subprogram to be carried out in the next following Fiscal Year;

(b) by June 30 of each such Fiscal Year during the implementation of the Project, or such later date as may be acceptable to the Association, provide to the Association for its approval, each such Subprogram modified in a manner satisfactory to the Association, taking into account its comments and recommendations;

(c) carry out or cause to be carried out each such Subprogram in accordance with modalities and procedures approved by the Association and in a manner satisfactory to the Association;

(d) not make any material changes to the agreed Subprogram without prior approval of the Association; and

(e) ensure that sufficient funds shall be released to the Department of Health of AJK not later than the fifteenth day of the beginning of each quarter during the period of the Program, for the

purposes of implementing such part of the approved Subprogram as is to be carried out in that quarter.

2. AJK shall, with the participation of the Association, NGOs and community representatives, carry out: (a) no later than March 31 of each Fiscal Year during the implementation of the Project, an annual review of the Project for purposes, inter alia, of monitoring and evaluating progress made in the carrying out of the Project and the Subprograms carried out in the current Fiscal Year; and (b) no later than June 30 of each Fiscal Year during the implementation of the Project, an annual review of the Project for purposes, inter alia, of: (i) reviewing the eligibility of Subprograms for financing out of the proceeds of the Credit in the following Fiscal Year, including the amounts to be allocated out of the proceeds of the Credit for such approved Subprograms; and (ii) obtaining the approval of the Association in respect of the expenditure program and the financing plan for the following Fiscal Year.

3. AJK shall during the period 1996/1997 to 1999/2000, increase the overall level of spending on the Program, and on the non-salary recurrent costs under the Program by an average of 11% and 18% per annum, respectively, in constant price terms.

4. AJK shall ensure that an adequate number of qualified service delivery staff are available to assist in the implementation of the Program and shall not take any action to restrict or prohibit the recruitment of such staff.

5. AJK shall create and fill additional management positions in the district offices of the Department of Health by February 28, 1997. The additional management positions shall be agreed upon as part of the Subprogram for FY 1996/1997 approved pursuant to paragraphs 1 (a) and (b) of this Schedule.

6. AJK shall make arrangements satisfactory to the Association for obtaining and maintaining adequate provision of technical assistance to and the involvement of NGOs and communities in the implementation of the Project.

7. AJK shall ensure that the Program Steering Committee, the NGO Program Committee and the District Health Committees shall each meet at least quarterly.

8. AJK shall, without limitation upon the provisions of Section 9.06 of the General Conditions, monitor and evaluate the implementation of the Program and, additionally, furnish the following reports to the Association:

(a) semiannual summary reports on the progress of the Program, not later than 60 days after the end of each six-month period during the implementation of the Project; and

(b) detailed progress reports on the Program by July 31, 1998, which reports shall discuss, inter alia, the achievements of the objectives of the Program. AJK shall review such reports with the Association by September 30, 1998.

SCHEDULE 2

Procedures and Terms and Conditions of Grants

1. Grants under paragraph 1 of Schedule 2 to the Development Credit Agreement shall be managed by the NGO Program Committee, which shall report to the Program Steering Committee, and shall satisfy the following criteria:

(a) the purposes for which such grants shall be made shall be to provide direct project support for NGO-related activities (Grant activities);

(b) such grants: (i) shall be made to the Family Planning Association of Pakistan and the Marie Adelaide Foundation to support

the expansion of their existing programs; and (ii) may, subject to subparagraph (c) below, be made to NGOs and community groups which: (1) are registered bodies in existence for more than one year; (2) have the capacity, commensurate with the size of the NGO or community group, to generate and manage funds and maintain and audit accounts for such funds; (3) have the capacity, commensurate with the size of the NGO or community group, to manage, monitor and report on Grant activities; (4) are willing to work in rural and difficult geographical areas; (5) are community-oriented; and (6) are willing to work in partnership with the public sector (collectively, the Beneficiaries);

(c) notwithstanding subparagraph (b) (ii) above, grants shall be made to NGOs (other than the Family Planning Association of Pakistan and the Marie Adelaide Foundation) and community groups only for projects which: (i) are responsive to local health needs; (ii) are technically and economically feasible; (iii) are development, rather than welfare, oriented; (iv) are replicable; (v) do not overlap with or duplicate other services; (vi) offer services to all members of the community, especially women and children; and (vii) demonstrate plans to become financially sustainable beyond the period of funding;

(d) notwithstanding subparagraph (b) above, Grants shall be made only to NGOs that are administratively and operationally independent from the Borrower and AJK; and

(e) the work program for a Grant activity shall not exceed three years.

2. (a) AJK shall submit to the Association, for its approval, the first three Grant proposals under the Credit and, thereafter, all proposals for Grants equivalent to \$100,000 or more each.

(b) When presenting a Grant to the Association for approval under subparagraph (a) above, AJK 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 out of the proceeds of the Credit; and (ii) such other information as the Association shall reasonably request.

(c) When submitting requests for withdrawals under the Credit in respect of Grants not covered by subparagraph (a) above and not requiring the Association's prior approval, AJK shall furnish to the Association documentation containing the date of the Grant and the name of the beneficiary and such other information as the Association shall reasonably request.

(d) Applications and requests made pursuant to the provisions of subparagraphs (b) and (c) of this paragraph shall be presented to the Association on or before June 30, 1999.

3. No expenditures for goods or services required for a Grant activity shall be eligible for financing out of the proceeds of the Credit unless such expenditures shall have been made not earlier than ninety days prior to the date on which the Association shall have received the application or request referred to in subparagraphs 2 (b) and (c) above, respectively.

4. Grants shall be made on terms whereby AJK shall obtain, by written contract with the Beneficiaries or by other appropriate legal means, rights adequate to protect the interests of the Association, including the right to:

(a) require the Beneficiary to carry out and operate the Grant activity with due diligence and efficiency and 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.4 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 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 its contract with AJK.

