
LOAN NUMBER 2213-PAK(SF)

GRANT NUMBER 0029-PAK(SF)

PROJECT AGREEMENT
(Earthquake Emergency Assistance Project)

between

ASIAN DEVELOPMENT BANK

and

AZAD JAMMU AND KASHMIR

DATED 23 December 2005

PAG: PAK 39631

PROJECT AGREEMENT

PROJECT AGREEMENT dated 23 December 2005 between ASIAN DEVELOPMENT BANK ("ADB") and AZAD JAMMU AND KASHMIR ("AJK").

WHEREAS

(A) by a Financing Agreement of even date herewith between the ISLAMIC REPUBLIC OF PAKISTAN (the "Beneficiary") and ADB, ADB has agreed to make to the Beneficiary a loan in various currencies equivalent to one hundred fifty four million two hundred twenty seven thousand Special Drawing Rights (SDR 154,227,000) and a grant of eighty million (\$80,000,000) on the terms and conditions set forth in the Financing Agreement, but only on condition in each case that a portion of the proceeds of the Loan and the Grant, respectively, be made available to AJK and that AJK agree to undertake certain obligations towards ADB as set forth in this Project Agreement; and

(B) AJK, in consideration of ADB entering into the Financing Agreement with the Beneficiary, has agreed to undertake the obligations set forth in this Project Agreement;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Definitions

Section 1.01. (a) Wherever used in this Project Agreement, unless the context otherwise requires, the terms defined in the Financing Agreement, the Loan Regulations and the Grant Regulations (as so defined) have the respective meanings therein set forth, except that for purposes of this Project Agreement, the term "the Project" means Project Sector Components, as defined in the Financing Agreement and described in Schedule 1 to the Financing Agreement.

(b) In addition to the terms referred to in paragraph (a) of this Section, the following terms, wherever used in this Project Agreement, unless the context otherwise requires, have the following meanings:

(i) "EA" means the Executing Agency, which is AJK RA; and

(ii) "IA" means the Implementing Agency and includes Local Government and Rural Development Department, Departments of Electricity, Health, Education, and Public Works Department of AJK.

ARTICLE II

Particular Covenants

Section 2.01. (a) AJK shall carry out the Project with due diligence and efficiency, and in conformity with sound administrative, financial, engineering, environmental and social safeguard practices.

(b) In the carrying out of the Project and operation of the Project facilities, AJK shall perform all obligations set forth in the Financing Agreement to the extent that they are applicable to AJK, and all obligations set forth in Schedule 6 to the Financing Agreement and Schedule to this Project Agreement.

(c) AJK shall ensure that each IA identifies, develops, submits for approval and implements subprojects in accordance with the provisions of the Financing Agreement and this Project Agreement.

Section 2.02. AJK shall make available, promptly as needed, the funds, facilities, services equipment, land and other resources which are required, in addition to the proceeds of the Loan and the Grant, for the carrying out of the Project.

Section 2.03. (a) In the carrying out of the Project, AJK shall employ and shall cause the EA and each IA to employ competent and qualified consultants and contractors, acceptable to ADB, to an extent and upon terms and conditions satisfactory to ADB.

(b) Except as ADB may otherwise agree, all goods and services to be financed out of the proceeds of the Loan and the Grant shall be procured in accordance with the provisions of Schedule 4 and Schedule 5 to the Financing Agreement. ADB may refuse to finance a contract where goods or services have not been procured under procedures substantially in accordance with those agreed between the Beneficiary and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.04. AJK shall ensure that the EA and each IA shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. AJK shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.05. (a) AJK shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance of the Project facilities to such extent and against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, AJK undertakes to insure, or cause to be insured, the goods to be imported for the Project and to be financed out of the proceeds of the Loan or the Grant against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such goods.

Section 2.06. AJK shall maintain, or cause the EA and each IA to maintain, records and accounts adequate to identify the goods and services and other items of expenditure financed out of the proceeds of the Loan or the Grant, to disclose the use thereof in the Project, to record the progress of the Project and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

Section 2.07. (a) ADB and AJK shall cooperate fully to ensure that the purposes of the Loan and the Grant will be accomplished.

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

(c) ADB and AJK shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, AJK and the Loan and the Grant.

Section 2.08. (a) AJK shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the Grant and the expenditure of the proceeds thereof; (ii) the goods and services and other items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition of AJK; and (v) any other matters relating to the purposes of the Loan and the Grant.

(b) Without limiting the generality of the foregoing, AJK shall ensure that the EA and each IA furnish to ERRAs for delivery to ADB quarterly reports on the execution of the Project and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.

(c) Promptly after physical completion of the Project, but in any event not later than three (3) months thereafter or such later date as ADB may agree for this purpose, AJK shall ensure that the EA and each IA shall prepare and furnish to ERRAs for delivery to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by AJK of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan and the Grant.

(d) AJK acknowledges that consistent with its commitment to good governance, accountability, ADB reserves the right to investigate, directly or through its agents, any activities relating to the Project. All contracts financed by ADB in connection with the Project shall include provisions specifying the right of ADB to audit and examine the records and accounts of the EA, IAs and all contractors, suppliers, consultants and other service providers as they relate to the Project.

Section 2.09. (a) AJK shall ensure that the EA and each IA shall (i) maintain separate accounts for the Project and each subproject, and for the Project's overall operations, including separate accounts for the Loan and the Grant; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than 4 months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan and the Grant proceeds and compliance with the financial covenants of the Financing Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language. AJK shall ensure that the EA and each IA shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) AJK shall enable ADB, upon ADB's request, to discuss the EA's and IA's financial statements and its financial affairs from time to time with the auditors appointed by AJK pursuant to Section 2.09(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of AJK unless AJK shall otherwise agree.

Section 2.10. AJK shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Loan or the Grant all relevant plants, sites, works, properties and equipment of the EA and each IA, and any relevant records and documents.

Section 2.11. (a) AJK shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its business.

(b) AJK shall at all times conduct its business in accordance with sound administrative, financial, environmental and social safeguard practices, and under the supervision of competent and experienced management and personnel.

(c) AJK shall at all times operate and maintain its plants, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound administrative, financial, engineering, environmental, social safeguard, and maintenance and operational practices.

Section 2.12. Except as ADB may otherwise agree, AJK shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.

Section 2.13. Except as ADB may otherwise agree, AJK shall apply the proceeds of the Loan and the Grant to the financing of expenditures on the Project in accordance with the provisions of the Financing Agreement and this Project Agreement, and

shall ensure that all goods and services financed out of such proceeds are used exclusively in the carrying out of the Project.

ARTICLE III

Effective Date; Termination

Section 3.01. This Project Agreement shall come into force and effect on the date on which the Financing Agreement shall come into force and effect. ADB shall promptly notify AJK of such date.

Section 3.02. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Financing Agreement.

ARTICLE IV

Miscellaneous

Section 4.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project 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, facsimile or radiogram to the party to which it is required or permitted to be given or made at its 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 ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:

(632) 636-2444
(632) 636-4444

For AJK

Additional Chief Secretary
New Secretariat Chapter
Government of AJK
Muzaffarabad, AJK
Pakistan

Facsimile Number:

(92-58 - 810) 32512.

Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement by or on behalf of AJK may be taken or executed by its Additional Chief Secretary or by such other person or persons as he shall so designate in writing notified to ADB.

(b) AJK shall furnish to ADB sufficient evidence of the authority of each person who will act under paragraph (a) of this Section, together with the authenticated specimen signature of each such person.

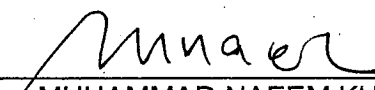
Section 4.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

ASIAN DEVELOPMENT BANK

By 
HARUHIKO KURODA
President

AZAD JAMMU AND KASHMIR

By 
MUHAMMAD NAEEM KHAN
Ambassador of the Islamic Republic
of Pakistan to the Philippines
Authorized-Representative

SCHEDULE

Execution of Project

1. In addition to the undertakings set forth in Schedule 6 to the Financing Agreement, AJK shall ensure that the EA and IAs perform each of its undertakings under this Schedule.

Health

2. AJK shall ensure that all the equipment can be operated soon after procurement and training, all vacant posts in the tehsil and district hospitals under the Health Sector Subcomponent are filled immediately after the Project activities start in those hospitals, and paramedical staff are provided opportunities to work in the remote areas.

3. AJK shall ensure that for the equipment to be procured under the Health Sector Subcomponent, operators and technicians are assigned, or post created and filled at the time of placing the order for that equipment.

Education

4. AJK shall ensure that all positions required to meet the staffing requirement of trained teacher-student ratio at middle levels, are in place before the start of any subproject in accordance with the AJK's existing rules on teacher-student ratio.

5. AJK shall ensure that the recurring and operational budget for all schools to be reconstructed under the Project shall be provided by the AJK from its annual recurring budget.