Program Agreement

(Second NWFP Structural Adjustment Credit)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

NORTH WEST FRONTIER PROVINCE

Dated June 22, 2004
PROGRAM AGREEMENT

AGREEMENT, dated June 22, 2004, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and NORTH WEST FRONTIER PROVINCE acting by its Governor (NWFP).

WHEREAS (A) the Association has received from the Islamic Republic of Pakistan (the Borrower) a letter dated May 13, 2004, transmitting to the Association a letter from NWFP dated May 11, 2004, describing a program of actions, objectives and policies designed to improve and strengthen the fiscal framework and public institutions of NWFP (hereinafter called the Program), declaring the commitment of NWFP to the execution of the Program and the Borrower’s support thereto, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) NWFP has carried out the measures and taken the actions described in the Schedule to this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework consistent with the Borrower’s macroeconomic framework satisfactory to the Association;

(C) by the Development Credit Agreement of even date herewith between the Borrower and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to sixty-two million one hundred thousand Special Drawing Rights (SDR 62,100,000) on the terms and conditions set forth in the Development Credit Agreement, but only on condition that NWFP agrees to undertake such obligations toward the Association as are set forth in this Agreement; and

(D) the Program will be carried out by NWFP with the Borrower’s assistance and, as part of such assistance, the Borrower will make available to NWFP the local currency equivalent of the proceeds of the Credit as provided in the Development Credit Agreement;

WHEREAS NWFP, in consideration of the Association 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 Program

Section 2.01. NWFP declares its commitment to the objectives of the Program and, to this end, shall carry out the Program with due diligence and efficiency, and shall provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Program.

Section 2.02. (a) NWFP shall from time to time, at the request of the Association, and with the participation of the Borrower, exchange views with the Association with regard to the progress of the Program, the actions specified in the Schedule to this Agreement, the performance of its obligations under this Agreement and other matters relating to the purposes of the Credit.

(b) Prior to each such exchange of views, NWFP shall furnish to the Association and the Borrower for their review and comments a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) NWFP shall promptly inform the Association and the Borrower of any condition, which interferes or threatens to interfere with the progress of the Program, the accomplishment of the purposes of the Credit, or the performance by NWFP of its obligations under this Agreement.

(d) Without limitation upon the provisions of paragraphs (a), (b) and (c) of this Section, NWFP shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in the Schedule to this Agreement.

Section 2.03. For the purpose of assisting in the implementation and monitoring of the Program, NWFP shall maintain an Economic Reform Unit which shall report on the progress of the Program to the Senior Minister, Finance and Planning of NWFP on a quarterly basis.
Section 2.04. NWFP shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Program and the achievement of the objectives thereof, including the impact of implementation of the Program on the poor;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, not later than six (6) months after the Closing Date, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in carrying out the Program and setting out the measures recommended to ensure the efficient carrying out of the Program and the achievement of the objectives thereof; and

(c) review with the Association the report referred to in paragraph (b) of this Section, within forty-five (45) days of the receipt of the report and thereafter, take all measures required to ensure the efficient implementation of the Program and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association’s views on the matter.

Section 2.05. (a) NWFP shall use the amounts transferred to it by the Borrower pursuant to Section 2.02 (c) of the Development Credit Agreement in support of the Program. NWFP undertakes that no proceeds of any such amounts shall be used to finance expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of NWFP during the procurement or execution of such contract, unless and until NWFP shall have taken timely and appropriate action satisfactory to the Association to remedy the situation.

(b) If the Association shall have determined at any time that any such amount shall have been used to make a payment for any expenditure not consistent with paragraph (a) above, NWFP shall, promptly upon request from the Association, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

ARTICLE III

Financial Covenants

Section 3.01. (a) NWFP shall, not later than thirty (30) days after the receipt of the Rupee amount transferred to it by the Borrower pursuant to Section 2.02 (c) of the Development Credit Agreement provide confirmation to the Association showing the date and the Rupee amounts received from the Borrower and stating that such amounts have been credited into the Consolidated Account of NWFP on that same day.
(b) Upon the Association’s request, NWFP shall, not later than sixty (60) days after the date of such request, provide to the Association an audit report by independent auditors acceptable to the Association showing the date and the Rupee amounts transferred by the Borrower to NWFP pursuant to Section 2.02 (c) of the Development Credit Agreement.

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 NWFP 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 (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 NWFP 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, telex or facsimile 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. Deliveries made by facsimile transmission shall also be confirmed by mail. 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: Telex: Facsimile:
INDEVAS 248423 (MCI) or (202) 477-6391
Washington, D.C. 64145 (MCI)

For NWFP:

Planning and Development Department
Government of North West Frontier Province
Peshawar, Pakistan

Cable Address: Facsimile:
DEVELOPMENT 091-9210354
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 NWFP may be taken or executed by the Secretary, Finance Department, NWFP, or such other person or persons as NWFP shall designate in writing, and NWFP 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/ John W. Wall
Country Director
Pakistan

NORTH WEST FRONTIER PROVINCE

By /s/ Mushtaq Malik
Authorized Representative
SCHEDULE

Actions Referred to in Recital (B) of the respective Preambles to the Development
Credit Agreement and the Program Agreement

A. Improving Fiscal Sustainability and Restoring Financial Accountability

1. With a view to improving expenditure composition, the project portfolio in the
FY 2004 ADP budget has been re-prioritized so as to reduce the throw-forward ratio of
development projects to a level below the FY 2003 level of 3.2 years.

2. With a view to promoting fiscal devolution, a decision has been taken to transfer
funds for district government staff salaries to the districts via NWFP’s Account IV.

3. With a view to improving financial accountability, transparency and efficiency in
public spending: (a) the monthly reconciliation rates of receipts, expenditures, suspense
accounts, and intergovernmental accounts have been raised to 90%, 93%, 90% and 85%,
respectively, with two months lag, from 75%, 51%, 80% and 84%, respectively, in
FY 2003; and (b) a new procurement law has been enacted, and new procurement
regulations and standard bidding documents for goods, works and consultants services
have been notified and are operational.

B. Strengthening Accountability and Professionalism of State Institutions

4. With the view to promoting administrative devolution: (a) revised district rules of
business have been notified and implemented; and (b) authority for recruitment of
teachers has been devolved to district governments.

C. Accelerating Human Development

5. With a view to alleviating demand constraints on basic education: (a) the
following progress in providing missing facilities for girls’ schools has been achieved;
(i) latrines - 96%; (ii) boundary walls - 90%; (iii) water supply - 64%; and (iv) additional
classrooms - 50%; and (b) free public education expanded through secondary level and
provision of free textbooks to girls of all grades and boys up to grade-2 in all government
primary schools has been announced.

6. With a view to improving the quality of education, a system of monitoring
teacher attendance to reduce teacher absenteeism has been implemented, under which
Executive District Officers (EDOs) (Education) take disciplinary action based on timely
reports and send monthly consolidated reports to the Directorate for Schools and
Literacy.
7. With a view to enhancing health service delivery, coverage of TB (tuberculosis) daily observation therapy sessions (DOTS) has been extended from 10 to 17 districts, and 1800 new lady health workers and 200 female nurses have been deployed at district hospitals.

D. Promoting Growth and Private Sector Development

8. With a view to promoting private sector development: (a) a private sector development policy statement has been issued, and an agricultural growth strategy has been approved; and (b) of all remaining small hydel projects, three (3) have been leased to the private sector, five (5) have completed the bidding process and one (1) is being refurbished.