Project Agreement

(Additional Financing for the Second Poverty Alleviation Fund Project to support Participatory Development through Social Mobilization)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

PAKISTAN POVERTY ALLEVIATION FUND

Dated December 7, 2007
PROJECT AGREEMENT

Agreement dated December 7, 2007, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") and PAKISTAN POVERTY ALLEVIATION FUND ("Project Implementing Entity") ("Project Agreement") in connection with the Financing Agreement ("Financing Agreement") of same date between the ISLAMIC REPUBLIC OF PAKISTAN ("Recipient") and the Association. The Association and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.

ARTICLE II — PROJECT

2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — TERMINATION

3.01. For purposes of Section 8.05(c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE IV — REPRESENTATIVE; ADDRESSES

4.01. The Project Implementing Entity’s Representative is its Chief Executive Officer.
4.02. The Association’s Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: INDEVAS Telex: 248423(MCI) Facsimile: 1-202-477-6391

Washington, D.C.

4.03. The Project Implementing Entity’s Address is:

Pakistan Poverty Alleviation Fund
House No.1, Street 20
F-7/2 Islamabad, Pakistan

Facsimile: 92-51-2652246

AGREED at Islamabad, Islamic Republic of Pakistan, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Yusupha B. Crookes
Country Director
Pakistan

PAKISTAN POVERTY ALLEVIATION FUND

By

/s/ Kamal Hyat
Authorized Representative
SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Project Implementing Entity shall enter into a subsidiary agreement with the Recipient (the “Subsidiary Agreement”), for the implementation of Parts D, E and F of the Project, in accordance with Section I.A of Schedule 2 to the Financing Agreement.

2. The Project Implementing Entity shall at all times:

   (a) (i) be governed in accordance with the Memorandum and Articles of Association; and

       (ii) not assign, amend, abrogate or waive the Memorandum and Articles of Association or any provisions thereof if, in the opinion of the Association, such assignment, amendment, abrogation or waiver will materially and adversely affect the Project Implementing Entity’s performance or the implementation of the Project;

   (b) maintain a Board of Directors which shall have general oversight of the Project;

   (c) maintain staff, to include a Chief Executive Officer (CEO) and unit heads for social sector development, human and institutional development, monitoring, evaluation and research, finance and accounts and internal audit, all of whom shall have appropriate experience and qualifications and shall have been appointed on merit and in a transparent and competitive manner; and

   (d) keep the Association promptly informed of changes in membership of its Board of Directors including the Chairman, or management team referred to in sub-paragraph (c) above, and ensure that any such changes will be made in accordance with the procedures set forth in the Memorandum and Articles of Association.

B. Implementation Arrangements

The Project Implementing Entity shall:
(i) carry out its activities under the Project in accordance with the procedures, principles and practices set forth in the Operations Manual;

(ii) take all measures necessary to ensure that the activities under the Project are carried out by POs in conformity with the Operations Manual; and

(iii) not assign, amend, abrogate or waive the Operations Manual or any provisions thereof if, in the opinion of the Association, such assignment, amendment, abrogation or waiver will materially and adversely affect the Project Implementing Entity’s performance or the implementation of the Project.

C. Provision of Financing to POs (Eligibility Criteria – Terms and Conditions – Selection Process)

1. For purposes of carrying out Parts D and E of the Project, except as the Association shall otherwise agree, the Project Implementing Entity shall select POs which satisfy, and continue to satisfy, the eligibility criteria set forth for such POs in the Operations Manual, which shall include the following:

(a) the POs shall be registered under the laws of the Recipient;

(b) the POs shall have at least two (2) years in social sector development, including community mobilization experience;

(c) the POs shall have established working relations with community organizations in the Union Councils;

(d) the POs shall be involved in participatory development at the grass-roots level, have the capacity to expand their outreach and have a well-developed strategy and work plan for the future;

(e) the POs shall have a proper and transparent accounting system;

(f) the POs shall be willing and able to submit regular monitoring reports to the Project Implementing Entity and to submit to monitoring and evaluation by the Project Implementing Entity or by any outside agency appointed by the Project Implementing Entity for this purpose;

(g) the POs shall be willing and able to maintain all relevant records, documents and information in respect of financing received from the Project Implementing Entity, and to furnish these to the Project Implementing Entity;
(h) the POs shall have conducted audits in accordance with laws under which they are registered and audit scope acceptable to the Project Implementing Entity and be willing and able to accept mandatory external audits by an independent accounting firm, appointed by the Project Implementing Entity, which shall have satisfactory rating under the Quality Control Review program managed by the Institute of Chartered Accountants of Pakistan;

(i) the POs shall be financially sustainable or on the path to financial sustainability, as judged in the light of a realistic business plan and progress made by them towards achieving self-sufficiency;

(j) the POs shall not be political, discriminatory, ethnic, sectarian or exclusionary in nature; and

(k) the POs shall manage the environmental aspects of their operations in compliance with the Environmental Management Framework.

2. Except as the Association shall otherwise agree, POs shall receive financing from the Project Implementing Entity on a grant basis for purposes of carrying out Parts D and E of the Project.

3. (a) The Project Implementing Entity shall, through an advertisement to be published in national newspapers from time to time, invite POs to submit written proposals for participating in the Project.

(b) On the basis of such proposals, the Project Implementing Entity shall carry out a series of preliminary appraisals, desk appraisals and field appraisals of the proposed POs in accordance with its Operations Manual, in order to establish, inter alia, proposed POs can:

(i) satisfy the relevant eligibility criteria; and

(ii) demonstrate that they employ, or can employ, the operational policies, procedures and human resources, required in furtherance of the proposed partnership between themselves and the Project Implementing Entity.

(c) In order to receive financing, each eligible PO shall enter into a written agreement with the Project Implementing Entity, and, except as the Association shall otherwise agree, such agreement (PO Grant Agreement) shall provide, inter alia, for:
(i) the PO to declare its commitment to the objectives of the Project and to undertake to conduct its operations and affairs in accordance with sound financial standards and practices, with qualified and experienced management and in accordance with its charter;

(ii) the PO to establish and maintain satisfactory procedures and operational policies for supervision and monitoring of the activities so as to ensure the achievement of the objectives of the Project;

(iii) the PO to duly perform all its obligations under the PO Grant Agreement, and not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the PO Grant Agreement or any provision thereof;

(iv) the PO, at the request of the Project Implementing Entity, to exchange views with the Project Implementing Entity with regard to the performance of its obligations under the PO Grant Agreement and other matters relating to the purposes of the Project;

(v) the PO to promptly inform the Project Implementing Entity of any condition which interferes or threatens to interfere with the accomplishment of the purposes of the grant or the performance by the PO of its obligations under the PO Grant Agreement;

(vi) the PO to maintain records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures of the PO in respect of the Project and to have such records and accounts audited in accordance with appropriate auditing principles consistently applied by an independent auditor acceptable to the Project Implementing Entity;

(vii) the Project Implementing Entity to have the right to suspend or terminate the right of the PO to use the proceeds of the grant:

(aa) upon failure by the PO to perform its obligations under the PO Grant Agreement, or upon notice by the Association to the Recipient that it intends to exercise any of its remedies under Sections 6.02 and 6.06 of the General Conditions; or
(bb) upon notice by the PO that it intends to terminate the PO Grant Agreement or upon the actual termination of the PO Grant Agreement, whichever occurs first; and

(viii) as a condition of the financing, the PO to agree to the Project Implementing Entity obtaining a legal opinion or opinions satisfactory to the Project Implementing Entity, stating that such PO Grant Agreement has been duly authorized or ratified by such PO and is legally binding upon such PO in accordance with its terms.

D. Recruitment of Individuals to carry out Social Mobilization under Part D of the Project

The Project Implementing Entity shall recruit or cause to be recruited individuals for the implementation of Part D of the Project, in accordance with the procedures, criteria and terms of reference set out in the Operations Manual.

E. Anti-Corruption

The Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

F. Safeguards

The Project Implementing Entity shall:

(a) ensure that all activities will be carried out in accordance with the provisions of the Environmental Management Framework; and

(b) not assign, amend, abrogate or waive the Environmental Management Framework or any provisions thereof if, in the opinion of the Association, such assignment, amendment, abrogation, or waiver will materially and adversely affect the implementation of the Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each such Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Recipient not later than forty-five
(45) days after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.

2. The Project Implementing Entity shall provide to the Recipient not later than forty-five (45) days after the Closing Date the report on the execution of the Project and related plan required pursuant to Section 4.08(c) of the General Conditions, for incorporation in the report referred to in such Section and all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including specifically the operations, resources and expenditures related to the Project.

2. Without limitation on the provisions of Part A of this Section, the Project Implementing Entity shall prepare and furnish to the Recipient as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one (1) fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Association not later than six (6) months after the end of the period.

Section III. Procurement

All goods and services required for the Project and to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.