
LOAN NUMBER 3473-PAK

LOAN NUMBER 3474-PAK(SF)
GRANT NUMBER 0519-PAK(EF)

PROJECT AGREEMENT
(National Disaster Risk Management Fund)

between

ASIAN DEVELOPMENT BANK

and

NATIONAL DISASTER RISK MANAGEMENT FUND

DATED 23-Dec-2016

PAK 50316

PROJECT AGREEMENT

PROJECT AGREEMENT dated 23-Dec-2016 between ASIAN DEVELOPMENT BANK ("ADB") and NATIONAL DISASTER RISK MANAGEMENT FUND ("Fund").

WHEREAS

(A) by a Loan Agreement dated 2 December 2016 between Islamic Republic of Pakistan ("Borrower") and ADB ("Ordinary Operations Loan Agreement"), ADB has agreed to make to the Borrower a loan ("Ordinary Operations Loan") of seventy-five million Dollars (\$75,000,000) on the terms and conditions set forth in the Ordinary Operations Loan Agreement;

(B) by a Loan Agreement dated 2 December 2016 between the Borrower and ADB ("Special Operations Loan Agreement", and together with the Ordinary Operations Loan Agreement, "Loan Agreements"), ADB has agreed to make to the Borrower a loan ("Special Operations Loan", and together with the Ordinary Operations Loan, "Loans") of ninety million one hundred eighty thousand Special Drawing Rights (SDR90,180,000) on the terms and conditions set forth in the Special Operations Loan Agreement;

(C) by a cofinancing arrangement dated 27 June 2016 between the Government of Australia ("Donor") and ADB, ADB has agreed to administer an untied grant provided by the Donor for the purposes of the Project in an amount of Australian dollars four million five hundred thousand (A\$4,500,000) ("Grant");

(D) by a grant agreement dated 2 December 2016 between the Borrower and ADB ("Grant Agreement"), ADB has agreed to make the proceeds of the Grant available to the Borrower upon the terms and conditions set forth therein;

(E) ADB has agreed to make the Loans and the Grant only on the condition that the proceeds of the Loans and the Grant be made available to the Fund and that the Fund agrees to undertake certain obligations towards ADB set forth herein; and

(F) The Fund, in consideration of ADB entering into the Loan Agreements and the Grant Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the several terms defined in the (a) Loan Agreements; (b) Loan Regulations (as defined in each of the Loan Agreements); (c) Grant Agreement; and (d) Grant

Regulations (as defined in the Grant Agreement) have the respective meanings therein set forth.

ARTICLE II

Particular Covenants

Section 2.01. (a) The Fund shall carry out the Project with due diligence and efficiency, and in conformity with sound applicable technical, financial, business, and development practices.

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

Section 2.02. The Fund shall make available, promptly as needed, and on terms and conditions acceptable to ADB, the funds, facilities, services, land and other resources as required, in addition to the proceeds of the Loans and the Grant, for the carrying out of the Project.

Section 2.03. (a) In the carrying out of the Project, the Fund shall 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, the Fund shall procure all items of expenditures to be financed out of the proceeds of the Loans and the Grant in accordance with the provisions of Schedule 4 to the Ordinary Operations Loan Agreement. ADB may refuse to finance a contract where any such item has not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.04. The Fund shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. The Fund 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) The Fund shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, the Fund undertakes to insure, or cause to be insured, the Goods to be imported for the Project 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. The Fund shall maintain, or cause to be maintained, records and accounts adequate to identify the items of expenditure financed out of the proceeds of the Loans and the Grant, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

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

(b) The Fund 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 Subsidiary Loan Agreement, or the accomplishment of the purposes of the Loans and the Grant.

(c) ADB and the Fund 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, the Fund, the Loans and the Grants.

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

(b) Without limiting the generality of the foregoing, the Fund shall furnish to ADB periodic 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 period under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following period.

(c) Promptly after physical completion of the Project, but in any event not later than 3 months thereafter or such later date as ADB may agree for this purpose, the Fund shall prepare and furnish 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 the Fund of its obligations under this Project Agreement and the accomplishment of the purposes of the Loans and the Grant.

Section 2.09. (a) The Fund shall (i) maintain separate accounts and records for the Project; (ii) prepare annual statements of utilization of funds for the Project in accordance with accounting principles acceptable to ADB; (iii) have such statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report, which includes the auditors' opinion(s) on the statements and the use of the proceeds of the Loans and the Grant, and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the close of the

fiscal year to which they relate, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited statements of utilization of funds for the Project and the opinion of the auditors on the statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

(c) In addition to the annual audited statements of utilization of funds referred to in subsection (a) hereinabove, the Fund shall (i) provide its annual financial statements prepared in accordance with financial reporting standards acceptable to ADB; (ii) have its financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iii) as part of each such audit, have the auditors prepare the auditors' opinion(s) on the financial statements and compliance with the financial covenants of the Ordinary Operations Loan Agreement; and (iv) furnish to ADB, no later than 1 month after approval by the relevant authority, copies of such audited financial statements and auditors' opinion(s), all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(d) The Fund shall enable ADB, upon ADB's request, to discuss the statements of utilization of funds for the Project and the financial statements of the Fund and its financial affairs where they relate to the Project with the auditors appointed by the Fund pursuant to subsections (a)(iii) and (c)(ii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the Fund, unless the Fund shall otherwise agree.

Section 2.10. The Fund shall enable ADB's representatives to inspect the Project, the Goods and Works and any relevant records and documents.

Section 2.11. (a) The Fund 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 operations.

(b) The Fund shall at all times conduct its operations in accordance with sound applicable technical, financial, business, development and operational practices, and under the supervision of competent and experienced management and personnel.

(c) The Fund 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 applicable technical, financial, business, development, operational and maintenance practices.

Section 2.12. Except as ADB may otherwise agree, the Fund 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, the Fund shall apply the proceeds of the Loans and the Grant to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreements, the Grant Agreement and this Project Agreement, and shall ensure that all items of expenditures financed out of such proceeds are used exclusively in the carrying out of the Project.

Section 2.14. Except as ADB may otherwise agree, the Fund shall duly perform all its obligations under the Subsidiary Loan Agreement, and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Subsidiary Loan Agreement.

Section 2.15. The Fund shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of its Memorandum and Articles, which, if implemented, could adversely affect the carrying out of the Project or the operation of the Project facilities. The Fund shall afford ADB an adequate opportunity to comment on such proposal prior to taking any affirmative action thereon.

ARTICLE III

Effective Date; Termination

Section 3.01. This Project Agreement shall come into force and effect on the date on which the Loan Agreements and the Grant Agreement have come into force and effect. ADB shall promptly notify the Fund of such date.

Section 3.02. This Project Agreement and all obligations of the parties hereunder shall terminate on the date on which the Loan Agreements and the Grant Agreement shall terminate in accordance with their terms.

Section 3.03. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreements and the Grant 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, mail or facsimile 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
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

(63-2) 636-2444
(92-51) 208-7397-98.

For the Fund

Room No. 307
Economic Affairs Division
C Block
Pakistan Secretariat
Islamabad, Pakistan

Facsimile Number:

(92-51) 910-4016.

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 or under Section 7.01 of the Loan Agreements by or on behalf of the Fund may be taken or executed by its Chief Executive Officer or by such other person or persons as he or she shall so designate in writing notified to ADB.

(b) The Fund shall furnish to ADB sufficient evidence of the authority of each person who will act under subsection (a) hereinabove, 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 as of the day and year first above written, and to be delivered at the principal office of ADB.

ASIAN DEVELOPMENT BANK

By



SUNIL MITRA
Officer-in-Charge and
Deputy Country Director

NATIONAL DISASTER RISK
MANAGEMENT FUND

By



TARIQ BAJWA
Chief Executive Officer

SCHEDULE

Execution of Project; Financial Matters

Implementation Arrangements

1. The Fund shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower, the Fund and ADB. In the event of any discrepancy between the PAM and this Project Agreement, the provisions of this Project Agreement shall prevail.

Accreditation Criteria for Qualified Recipients

2. Prior to the selection of any Qualified Recipients, the Fund shall develop accreditation criteria, acceptable to ADB, on the basis of which the Qualified Recipients shall be selected. The accreditation criteria shall, at minimum, include a review of:

- (a) the organizational structure of the potential Qualified Recipient;
- (b) the legal and regulatory system under which the potential Qualified Recipient is established and operates;
- (c) the management structure and capacity of the potential Qualified Recipient;
- (d) the internal checks and balances, book and record keeping and auditing system of the potential Qualified Recipient;
- (e) financing records and accounts and annual financial turnover for the preceding 3 years of the potential Qualified Recipient;
- (f) the technical qualifications, experience and expertise of the potential Qualified Recipient to undertake the proposed Qualified Subproject;
- (g) the quality control mechanisms and practices (including safeguards compliance, reporting and monitoring) of the potential Qualified Recipient; and
- (h) transparency of procurement process of the potential Qualified Recipient.

Criteria for Qualified Subproject

3. The Fund shall ensure that each Qualified Subproject shall be for activities that:

- (a) do not involve any environmental, involuntary resettlement or indigenous peoples impacts, which can be categorized as Category A, all within the

meaning of the SPS; and

- (b) are not included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

4. The Fund shall ensure that each Qualified Subproject shall meet the following minimum criteria:

- (a) it is identified as a priority within the NDMP or the NFPP-IV;
- (b) its scope is within the activities outlined in the business plan of the Fund as approved by its Board of Directors;
- (c) its expected results are aligned with the outcome and output targets set out in the Fund's design and monitoring framework;
- (d) it is located within the territory of the Borrower and has been prioritized under the available geographic risk and vulnerability mapping related to different disasters;
- (e) its proposal includes technical data on natural hazards and disaster risks which is aligned with the disaster risk management targets and outcomes the Project is expected to achieve;
- (f) it has clearly defined inputs and costs that conform to the standard norms and quality control checklist developed and updated, from time to time, by the Fund for different disaster risk management activities;
- (g) it is technically feasible, and the proposed intervention provides the most cost effective solution, and the proposed Qualified Subproject for structural investments (civil works and equipment) shall be economically viable and financially sustainable with its estimated economic rate of return equal to or higher than 12% based on the economic analysis to be conducted in accordance with ADB's Guidelines for the Economic Analysis of Projects or other procedures acceptable to ADB;
- (h) it is in compliance with applicable laws and regulations of the Borrower and the SPS;
- (i) it has been prepared in accordance with the requirements of the ESMS;
- (j) if applicable, its proposal includes an EMP and an IEE which have been prepared and disclosed in accordance with the requirements of the ESMS;
- (k) if applicable, its proposal includes an LARP which has been prepared and disclosed in accordance with the requirements of the ESMS;
- (l) if applicable, its proposal includes an IPP which has been prepared and disclosed in accordance with the requirements of the ESMS;

- (m) it complies with the Borrower's National Policy Guidelines on Vulnerable Groups in Disasters;
- (n) it complies with the gender criteria developed for the proposal screening and selection of the Qualified Subprojects;
- (o) it can be implemented during the implementation period of the Project; and
- (p) its proposal is submitted in the format developed by the Fund.

Screening, Categorization, and Environmental and Social Assessment and Planning

5. The Fund shall ensure that before any Qualified Subproject is approved for financing:

- (a) the ESMS is used to screen and categorize the significance of potential environmental, involuntary resettlement or indigenous peoples impacts associated with such Qualified Subproject;
- (b) an IEE, an EMP, an LARP and/or an IPP are prepared for such Qualified Subproject as required pursuant to the ESMS; and
- (c) if such Qualified Subproject is Category B within the meaning of the SPS, the IEE, the EMP, the LARP and/or the IPP are (i) cleared by ADB for a period of 2 years from the Effective Date; or (ii) cleared by the Fund after such 2 year period following a satisfactory independent review of the ESMS.

Environment

6. The Fund shall ensure that the preparation, design construction, implementation, operation and decommissioning of each Qualified Subproject comply with (a) all applicable laws and regulations of the Borrower relating to environment, health, and safety; (b) the Environment Safeguards; (c) the ESMS; and (d) all measures and requirements set forth in the respective IEE and EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Land Acquisition and Involuntary Resettlement

7. The Fund shall ensure that all land and all rights-of-way required for each Qualified Subproject are made available to the Works contractor in accordance with the schedule agreed under the related Works contract and all land acquisition and resettlement activities are implemented in compliance with (a) all applicable laws and regulations of the Borrower relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; (c) the ESMS; and (d) all measures and requirements set forth in the respective LARP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

8. Without limiting the application of the Involuntary Resettlement Safeguards, the ESMS or the LARP, the Fund shall ensure that no physical or economic displacement takes place in connection with any Qualified Subproject until:

- (a) compensation and other entitlements have been provided to affected people in accordance with the LARP; and
- (b) a comprehensive income and livelihood restoration program has been established in accordance with the LARP.

9. Without limiting the application of the Involuntary Resettlement Safeguards or the LARP, the Fund shall ensure that no land shall be acquired for the purposes of the Project under the emergency acquisition provisions of the Borrower's Land Acquisition Act, 1894, as amended from time to time.

Indigenous Peoples

10. The Fund shall ensure that the preparation, design, construction, implementation and operation of each Qualified Subproject comply with (a) all applicable laws and regulations of the Borrower relating to indigenous peoples; (b) the Indigenous Peoples Safeguards; (c) the ESMS; and (d) all measures and requirements set forth in the respective IPP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Human and Financial Resources to Implement Safeguards Requirements

11. The Fund shall ensure that necessary budgetary and human resources are made available to fully implement the ESMS.

Safeguard Monitoring and Reporting

12. The Fund shall do the following:
- (a) submit semiannual Safeguards Monitoring Reports to ADB;
 - (b) if any unanticipated environmental and/or social risks and impacts arise during Qualified Subproject implementation, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and
 - (c) report any actual or potential breach of compliance with the measures and requirements set forth in the ESMS and any EMP, LARP or IPP promptly after becoming aware of the breach.

Labor Standards, Health and Safety

13. The Fund shall and shall cause the Qualified Recipients to comply with the core labor standards and the Borrower's applicable laws and regulations during Project implementation. The Fund shall include and shall cause the Qualified Recipients to include specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, among other things: (a) comply with the Borrower's applicable labor law and regulations and incorporate applicable workplace occupational safety norms; (b) do not use child

labor; (c) do not discriminate workers in respect of employment and occupation; (d) do not use forced labor; (e) allow freedom of association and effectively recognize the right to collective bargaining; and (f) disseminate, or engage appropriate service providers to disseminate, information on the risks of sexually transmitted diseases, including HIV/AIDS, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project area, particularly women.

14. The Fund shall strictly monitor compliance with the requirements set forth in paragraph 13 above and provide ADB with regular reports.

Gender and Development

15. The Fund shall ensure that (a) the GAP is implemented in accordance with its terms; (b) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in the GAP; (c) adequate resources are allocated for implementation of the GAP; (d) progress on implementation of the GAP, including progress toward achieving key gender outcome and output targets, are regularly monitored and reported to ADB; and (e) key gender outcome and output targets include, but not limited to: (i) at least 20% of the core staff of the Fund are female; and (ii) a social and gender specialist responsible for the implementation and monitoring of the social, poverty and gender dimensions of the Project is appointed for the Fund within four months of the Effective Date.

Endowment Fund

16. The Fund shall ensure that the endowment fund shall be established, operated and maintained by the Fund in accordance with rules, regulations and procedures acceptable to ADB.

17. To ensure the financial viability and sustainability of the Fund, the Fund shall ensure that, unless ADB agrees otherwise, earnings generated from the endowment fund shall be used for (a) the Fund's recurrent costs starting from the fourth year of the Fund's operations; (b) additional investments in interest/profit bearing securities; and (c) financing of disaster risk reduction activities, as approved, from time to time, by the Board of Directors of the Fund.

Financial Covenants

18. The Fund shall develop and formally adopt policy manuals covering all areas of operations, finance and accounts, and procurement and human resources within 3 months of the Effective Date.

19. The Fund shall procure, install and implement computerized accounting software to automate the accounting and reporting processes to ensure that the financial statements are free of material errors and misstatements as well as to ensure timely submission and resolution of issues within four months of the Effective Date.

20. The Fund shall develop a financial and management reporting package with reporting frequency schedule and due dates based on the workdays within four months of the Effective Date.

21. The Fund shall conduct training and capacity building workshops for its staff regarding ADB's procedures and reporting requirements within four months of the Effective Date.

22. With effect from the financial year ending 30 June 2017 and for each succeeding financial year, the Fund shall (a) comply with the Corporate Governance Guidelines of the Securities and Exchange Commission of Pakistan; and (b) submit to ADB, together with the annual audit report of the Fund's financial statements, an audited statement of compliance with such Corporate Governance Guidelines, as required under the Code of Corporate Governance, 2013 of the Securities and Exchange Commission of Pakistan.

23. The Fund shall establish an independent internal audit function and appoint an internal auditor at a senior level with professional qualifications and strong audit experience, who shall report to the audit committee of its Board of Directors within 6 months of the Fund's operations.

Governance and Anticorruption

24. The Fund shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

25. The Fund shall ensure that all contracts in relation to the Project include provisions specifying the right of ADB to audit and examine the records and accounts of the contractors, suppliers, consultants, and other service providers as they relate to the Project.

Combating Money Laundering and Financing of Terrorism

26. The Fund shall:

- (a) comply with applicable laws and regulations of the Borrower on combating money laundering and financing of terrorism and that Loan proceeds are not used, directly or indirectly, in money laundering or financing of terrorism;
- (b) formulate and implements internal control procedures, including customer due diligence procedures, to prevent violation of subparagraph (a) hereinabove; and
- (c) promptly inform the Borrower and ADB if there is any violation or potential violation of subparagraph (a) hereinabove. In the event that ADB informs the Fund of its concern that there has been such an alleged violation, the Fund shall: (i) cooperate in good faith with ADB and its representatives so that ADB can determine whether such a violation has occurred; (ii) respond promptly and in reasonable detail to any query from ADB; and (iii) furnish documentary support for such response upon ADB's request.