
LOAN NUMBER 2213-PAK (SF)

GRANT NUMBER 0029-PAK (SF)

FINANCING AGREEMENT
(Special Operations)
(Earthquake Emergency Assistance Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 23 December 2005

FAS:PAK 39631

**FINANCING AGREEMENT
(Special Operations)**

FINANCING AGREEMENT dated 23 December 2005 between the ISLAMIC REPUBLIC OF PAKISTAN (the "Beneficiary") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Beneficiary has applied to ADB for a loan and a grant for the purposes of the Project described in Schedule 1 to this Financing Agreement (the "Project");

(B) The Beneficiary has also applied for a technical assistance ("TA") grant up to the equivalent of two million dollars (\$2,000,000) from ADB's TA funding program for Capacity Building of the Office of the Auditor General of Pakistan ("AGP"), and ADB has agreed to provide a grant to the Beneficiary for such purpose;

(C) the Project shall be carried out by the Earthquake Rehabilitation and Reconstruction Authority ("ERRA") through (i) Azad Jammu and Kashmir ("AJK") through the Reconstruction Agency ("AJK RA") and Departments of Local Government and Rural Development, Electricity, Health, Education and Public Works; (ii) North West Frontier Province ("NWFP") through the Reconstruction Agency ("NWFP RA"), district governments and line departments (as defined herein), Sarhad Hydel Development Organization ("SHYDO") and Frontier Highways Authority ("FHA"); (iii) Peshawar Electric Supply Company ("PESCO"); and (iv) Islamabad Electric Supply Company ("IESCO"); and for this purpose the Beneficiary shall make available a portion of the Loan proceeds and the Grant proceeds to ERRA, AJK, NWFP, AJK RA, NWFP RA, district governments, SHYDO, FHA, PESCO and IESCO, provided for herein upon terms and conditions as set forth in this Financing Agreement; and

(D) ADB has agreed to provide financing by making a loan and a grant to the Beneficiary from ADB's Special Funds resources upon the terms and conditions set forth herein and in the Project Agreements of even date herewith between (i) ADB and ERRA; (ii) ADB and AJK; (iii) ADB and NWFP; (iv) ADB and PESCO; and (v) ADB and IESCO.

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations and Grant Regulations; Definitions

Section 1.01. All provisions of the Special Operations Loan Regulations of ADB, dated 1 May 2004 (the "Loan Regulations"), are hereby made applicable to the Loan made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) The term "Loan Agreement", wherever it appears in the Loan Regulations, shall be substituted by the term "Financing Agreement".

(b) The term "Borrower", wherever it appears in the Loan Regulations, shall be substituted by the term "Beneficiary" as defined in the opening paragraph of this Financing Agreement.

Section 1.02. All provisions of the Pakistan Earthquake Fund Grant Regulations of ADB, dated 7 November 2005 (the "Grant Regulations"), are hereby made applicable to the Grant made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein subject, however, to the following modifications:

(a) The term "Grant Agreement", wherever it appears in the Grant Regulations, shall be substituted by the term "Financing Agreement".

(b) The term "Recipient", wherever it appears in the Grant Regulations, shall be substituted by the term "Beneficiary" as defined in the opening paragraph of this Financing Agreement.

Section 1.03. The definitions set forth in the Loan Regulations and Grant Regulations are applicable to this Financing Agreement, in each case unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "Component" means each component of the Project, as more fully described in paragraph 2 of Schedule 1 to this Financing Agreement;

(b) "DAC" means the district advisory committee;

(c) "DDC" means the district development committee;

(d) "DCO" means the district coordination officer;

(e) "district" means a district that is a subdivision of AJK or NWFP;

(f) "district governments" means district governments in NWFP and includes district government of Shangla, Kohistan, Battagram, Abbottabad and Mansehra;

(g) "CGA" means Controller General of Accounts of the Beneficiary;

(h) "Consolidated Fund" means the multi donor consolidated fund for the emergency earthquake assistance, established as a subaccount in the State Bank of Pakistan;

(i) "earthquake" means the earthquake of 8 October 2005;

(j) "EA" means the Executing Agency which for the purposes of, and within the meaning of, the Loan Regulations and the Grant Regulations means MOF and ERRA;

(k) "ECC" means Economic Coordination Committee of the Beneficiary;

(l) "Eligible Items" means permissible imports for financing listed in Attachment 2 to Schedule 3A;

(m) "EMP" means the environmental management plan, as more fully described in paragraph 16 of Schedule 6 to this Financing Agreement;

(n) “ERRA” means the Earthquake Rehabilitation and Reconstruction Authority of the Beneficiary;

(o) “EARF” means the environmental assessment and review framework in Appendix 14 to the RRP;

(p) “GAP” means the Gender Action Plan in Appendix 16 to the RRP;

(q) “IA” means the Implementing Agency and includes (i) Local Government and Rural Development Department, Departments of Electricity, Health, Education, and Public Works Department of AJK; (ii) line departments and district governments of NWFP, SHYDO and FHA; (iii) PESCO; and (iv) IESCO.

(r) “IEE” means the initial environmental examination;

(s) “line departments” means various works and services departments of NWFP;

(t) “MOF” means the Ministry of Finance of the Beneficiary or any successor thereof;

(u) “NGO” means non-governmental organization;

(v) “PDNA” means Preliminary Damage and Needs Assessment prepared by ADB and the World Bank, dated November 12, 2005;

(w) “Project facilities” means the facilities provided or to be provided under the Project;

(x) “Project Implementation Agreement” means the agreement to be entered into between and by (i) NWFP and SHYDO; (ii) NWFP and FHA; (iii) NWFP and each of the district governments; (iv) NWFP and NWFP RA; and (v) AJK and AJK RA, in the format, acceptable to ADB;

(y) “Project Sector Components” means Transport, Power, and Social Sectors Components, as more fully described in paragraph 2 of Schedule 1 to this Financing Agreement;

(z) “RAs” means the Reconstruction Agencies to be established in AJK and NWFP;

(aa) “RF” means the Resettlement Framework in Appendix 15 to the RRP;

(bb) “RRP” means the Report and Recommendation of the President of ADB for the Project;

(cc) “RP” means the Resettlement Plan, as more fully described in paragraph 17 of Schedule 6 to this Financing Agreement;

(dd) “SC” means the Steering Committee, as more fully described in paragraph 4 of Schedule 6 to this Financing Agreement;

(ee) “Subcomponent” means subcomponent of the Social Sectors Component or the Implementation Assistance Component, as more fully described in paragraph 2 of Schedule 1 to this Financing Agreement;

(ff) “subproject” means any subproject that is found eligible for financing in accordance with the provisions of schedule 6 to this Financing Agreement;

(gg) “tehsil” means a tehsil that is a subdivision of a district of AJK or NWFP;
and

(hh) “VPAP” means the Vulnerable People Action Plan in Appendix 17 to the RRP.

ARTICLE II

The Loan and the Grant

Section 2.01. ADB agrees to provide to the Beneficiary from ADB's Special Funds resources, on terms and conditions set forth in this Financing Agreement:

(a) an amount in various currencies equivalent to one hundred fifty four million two hundred twenty seven thousand Special Drawing Rights (SDR 154,227,000) (the “Loan”); and

(b) an amount of eighty million dollars (\$80,000,000) (the “Grant”).

Section 2.02. The Beneficiary shall pay to ADB an interest charge at the rate of one percent (1%) per annum on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 June and 15 December in each year.

Section 2.04. The Beneficiary shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

ARTICLE III

Use of Proceeds of the Loan and the Grant

Section 3.01. (a) The Beneficiary shall make a portion of the Loan and the Grant proceeds available to ERRA, AJK and NWFP, and through NWFP to district governments, SHYDO and FHA on terms and conditions, in accordance with the existing

policies and practices of the Beneficiary's government or as approved by ECC. The Beneficiary shall make a portion of the Loan and the Grant proceeds available to PESCO and IESCO on the same terms and conditions as defined herein. The foreign exchange risk shall be borne by the Beneficiary.

(b) The Beneficiary shall cause ERRA, AJK, NWFP, RAs, district governments, SHYDO and FHA to apply the proceeds of the Loan and the Grant to the financing of expenditures on the Project in accordance with the provisions of this Financing Agreement.

(c) The Beneficiary shall cause PESCO and IESCO to apply the proceeds of the Loan and the Grant to the financing of expenditures on the Project in accordance with the provisions of this Financing Agreement.

Section 3.02. The goods and services and other items of expenditure to be financed out of the proceeds of the Loan and the Grant and the respective allocation of amounts of the Loan and the Grant among different categories of such goods and services and other items of expenditure shall be in accordance with the provisions of Schedule 3A and Schedule 3B, respectively, to this Financing Agreement, as such Schedule 3A and Schedule 3B may be amended from time to time by agreement between the Beneficiary and ADB.

Section 3.03. 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 this Financing Agreement.

Section 3.04. Withdrawals from the Loan Account and the Grant Account in respect of goods and services shall be made only on account of expenditures relating to

- (a) goods which are produced in and supplied from and services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) goods and services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations and the Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2009 or, in each case, such other date as may from time to time be agreed between the Beneficiary and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Beneficiary shall perform, or cause to be performed, all obligations set forth in Schedule 6 to this Financing Agreement.

Section 4.02. (a) The Beneficiary shall (i) maintain, or cause to be maintained, separate accounts for the Project, including separate accounts for the Loan and the Grant; (ii) have such accounts and related financial 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; (iii) furnish to ADB, as soon as available but in any event not later than 4 months after the end of each related fiscal year, 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 proceeds and the Grant proceeds and compliance with the financial covenants of this Financing Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Beneficiary shall enable ADB, upon ADB's request, to discuss the Beneficiary's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Beneficiary pursuant to Section 4.02(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 the Beneficiary unless the Beneficiary shall otherwise agree.

Section 4.03. The Beneficiary shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Loan and the Grant, and any relevant records and documents.

ARTICLE V

Effectiveness

Section 5.01. The following is specified as an additional condition to the effectiveness of this Financing Agreement for the purposes of Section 9.01(f) of the Loan Regulations and Section 9.01 (e) of the Grant Regulations, respectively: appropriate approval for the Project shall have been granted by the duly competent authority of the Beneficiary.

Section 5.02. The following is specified as an additional matter, for the purposes of Section 9.02 (d) of the Loan Regulations and Section 9.02 of the Grant Regulations, respectively, to be included in the opinion or opinions to be furnished to ADB: appropriate approval for the Project shall have been granted by the duly competent authority of the Beneficiary.

Section 5.03. A date ninety (90) days after the date of this Financing Agreement is specified for the effectiveness of the Financing Agreement for the purposes of Section 9.04 of the Loan Regulations and Section 9.04 of the Grant Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Secretary, Economic Affairs Division, Ministry of Economic Affairs of the Beneficiary is designated as representative of the Beneficiary for the purposes of Section 11.02 of the Loan Regulations and Section 11.02 of the Grant Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations and Section 11.01 of the Grant Regulations:

For the Beneficiary

The Secretary
Economic Affairs Division
Ministry of Economic Affairs
Islamabad, Pakistan

Cable Address:

ECONOMIC
ISLAMABAD

Facsimile Number:

(92-51) 920 5971
(92-51) 921 0734.

For ADB

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

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

29066 ADB PH (RCA)

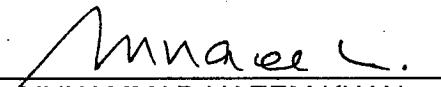
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:

(632) 636-2444
(632) 636-2340

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Financing 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.

ISLAMIC REPUBLIC OF PAKISTAN

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

ASIAN DEVELOPMENT BANK

By 
HARUHIKO KURODA
President

SCHEDULE 1

Description of the Project

1. The main impact of the Project is to contribute to the revival of economic activity and to enable people to resume their means of livelihood and return to normal life, by minimizing the devastating impact of the earthquake. The Project shall (i) rehabilitate and reconstruct damaged and destroyed infrastructure facilities; (ii) adopt revised and appropriate earthquake resistant design and construction standards in all construction undertaken in the selected sectors; and (iii) provide capacity building to enhance rehabilitation capacity and institutional building for sustainable development.

2. The Project comprises the following Components:

Quick Disbursing Component

Support to the Project through financing the foreign exchange costs of Eligible Items.

Transport Sector Component

Subprojects under this Component will cover:

(i) Rehabilitation of the earthquake-damaged major roads and bridges, except National Highways, within the four affected districts in AJK (Muzaffarabad, Poonch, Neelum and Bagh) and the five affected districts in NWFP (Abbottabad, Battagram, Kohistan, Mansehra, and Shangla), including, where technically feasible and justified, protection measures to mitigate damages from future landslides; and

(ii) Repair and rehabilitation of the damaged major roads and bridges under the Public Works Department and the Local Government and Rural Development Department in AJK and under FHA and district governments in NWFP, including, where technically feasible and justified, protection measures to mitigate damages from future landslides.

Power Sector Component

Subprojects under this Component will rehabilitate the power generation and supply system that were damaged during the earthquake, and install electricity in the tent villages and relief camps as well as related electricity supply to these camps for up to 2 years. In particular, subprojects will cover:

(i) Repair of the 9 hydropower generation stations in AJK and NWFP, inclusive of access roads, buildings, equipment, and ancillary facilities;

(ii) Supply and installation of equipment and lines related to the 132kv, 33kv, and 11kv substations;

(iii) Construction of operational buildings of substations and related staff quarters;

(iv) Provision of 0.4kv and 0.22kv low voltage lines, service connections to consumers, including meters; and spare parts, operational vehicles, and tools;

Schedule 1

(v) Installation of transformers, meters, and service connections to the tent villages and relief camps established after the earthquake and to the anticipated new model villages to be established for the victims of the earthquake; and

(vi) Payment of electricity supply for up to 2 years to the tent villages and relief camps.

Social Sectors Component

This Component, which will be implemented in AJK, consists of the following Subcomponents:

Health Sector Subcomponent

Subprojects under this Subcomponent will cover:

(i) Reconstruction of one district hospital and three tehsil headquarter hospitals, including wards, operation theatres, outpatient departments, staff quarters and provision of other necessary services;

(ii) Provision of all the essential medical equipment to the hospitals including ambulances and supplies; and

(iii) Construction of proper waiting areas and provision of public toilets and clean drinking water for visitors.

Education Sector Subcomponent

Subprojects under this Subcomponent, which will be implemented in AJK, will cover:

(i) Repair and reconstruction, according to improved seismic designs, of about 550 partly and completely damaged government middle schools buildings, latrines, office accommodation;

(ii) Provision of all essential furniture and equipment for all the middle schools reconstructed and repaired;

(iii) Provision of training of master trainers for teachers training; and

(iv) Provision of school health services for physical and physiological health assessment and advice.

Implementation Assistance Component

This Component consists of:

(i) Provision of incremental administrative support and consulting services for the Project; and

(ii) *Legal Assistance, Governance and Institutional Building Subcomponent*. This Subcomponent will address governance, legal, documentary and institutional issues arising from the earthquake impact.

3. The Project is expected to be completed by 31 December 2008.

SCHEDULE 2**Amortization Schedule
(Earthquake Emergency Assistance Project)**

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 June 2016	1,542,300.00
15 December 2016	1,542,300.00
15 June 2017	1,542,300.00
15 December 2017	1,542,300.00
15 June 2018	1,542,300.00
15 December 2018	1,542,300.00
15 June 2019	1,542,300.00
15 December 2019	1,542,300.00
15 June 2020	1,542,300.00
15 December 2020	1,542,300.00
15 June 2021	1,542,300.00
15 December 2021	1,542,300.00
15 June 2022	1,542,300.00
15 December 2022	1,542,300.00
15 June 2023	1,542,300.00
15 December 2023	1,542,300.00
15 June 2024	1,542,300.00
15 December 2024	1,542,300.00
15 June 2025	1,542,300.00
15 December 2025	1,542,300.00
15 June 2026	3,084,500.00
15 December 2026	3,084,500.00
15 June 2027	3,084,500.00
15 December 2027	3,084,500.00
15 June 2028	3,084,500.00
15 December 2028	3,084,500.00
15 June 2029	3,084,500.00
15 December 2029	3,084,500.00
15 June 2030	3,084,500.00
15 December 2030	3,084,500.00
15 June 2031	3,084,500.00
15 December 2031	3,084,500.00
15 June 2032	3,084,500.00
15 December 2032	3,084,500.00

* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 June 2033	3,084,500.00
15 December 2033	3,084,500.00
15 June 2034	3,084,500.00
15 December 2034	3,084,500.00
15 June 2035	3,084,500.00
15 December 2035	3,084,500.00
15 June 2036	3,084,500.00
15 December 2036	3,084,500.00
15 June 2037	3,084,500.00
15 December 2037	3,084,500.00
15 June 2038	3,084,500.00
15 December 2038	3,084,500.00
15 June 2039	3,084,500.00
15 December 2039	3,084,500.00
15 June 2040	3,084,500.00
15 December 2040	3,084,500.00
15 June 2041	3,084,500.00
15 December 2041	3,084,500.00
15 June 2042	3,084,500.00
15 December 2042	3,084,500.00
15 June 2043	3,084,500.00
15 December 2043	3,084,500.00
15 June 2044	3,084,500.00
15 December 2044	3,084,500.00
15 June 2045	3,084,500.00
15 December 2045	3,085,500.00
Total	154,227,000.00

* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3A**Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of goods, services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories and Subcategories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, reallocate such excess amount to any other Category.

Imprest Accounts; Statement of Expenditures

4. (a) Except as ADB may otherwise agree, the Beneficiary shall establish immediately after the Effective Date, under the Consolidated Fund imprest accounts for EAs, as necessary, at the National Bank of Pakistan for the Project Sector Components and the Implementation Assistance Component. The imprest accounts shall be established, managed, replenished and liquidated in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Beneficiary and ADB. Existing fund flow arrangements of the Beneficiary's government will be used to disburse funds from EAs' imprest accounts down to the district levels. The initial amount to be deposited into each imprest account shall not exceed the lesser of 3 months estimated eligible Project expenditures or 10% of the Loan amount.

Schedule 3A

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures for the Project and to liquidate advances provided into the imprest account, in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Beneficiary and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$100,000 for the Project Sector Components and Implementation Assistance Component.

Retroactive Financing

5. Withdrawals from the Loan Account may be made for reimbursement of reasonable eligible expenditures for the Project and incurred before the Effective Date, but not earlier than 8 October 2005, subject to a maximum amount of up to 30% of the Loan amount. Subject to the approval of the ADB Board of Directors, withdrawals from the Loan Account may be made for reimbursement of the cost of (i) consulting services related to surveys with respect to damage and needs assessment provided that the consultants have been engaged in accordance with procedures acceptable to ADB; and (ii) procurement activities related to the Power Sector Component, provided that such activities have been carried out in accordance with procedures acceptable to ADB. ADB has the right to refuse to finance contracts that have been entered into and do not meet ADB requirements.

Conditions of Withdrawals

6. No withdrawals shall be made for the Project Sector Components until detailed implementation, financial management and auditing arrangements shall have been developed and documented in an operational manual in substance and form, satisfactory to ADB.

7. No withdrawals shall be made for the Project Sector Components and Implementation Assistance Component, until the financial terms and conditions for the Project shall have been approved by ECC and found satisfactory by ADB.

Quick Disbursing Component

8. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account with respect to the Quick Disbursing Component:

(a) Withdrawals from the Loan Account shall be made for the financing of the foreign exchange cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of (i) any local expenditures; or (ii) any foreign exchange expenditures which have been financed by credits from official international or bilateral aid agencies or donations from foreign governments or any other loans or grants made by ADB.

(c) An application for withdrawal from the Loan Account shall be submitted to ADB by the Beneficiary and shall be in a form satisfactory to ADB.

(d) Such withdrawal applications shall be accompanied by a certificate of the Beneficiary confirming that the value of the Eligible Imports is greater than the amount of the Loan claimed for disbursement.

(g) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Beneficiary during the relevant period (not earlier than 8 October 2005) minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports for ineligible items; and
- (iii) imports financed from credits from official international or bilateral aid agencies or donations from foreign governments or any other loans or grants made by ADB .

(f) The Beneficiary shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Beneficiary has certified the value of Eligible Imports in its withdrawal application.

(g) For the purposes of disbursement, submission of supporting documents will not be required. However, these documents shall be audited during the annual audit and a separate audit opinion shall be provided on the use of the Loan proceeds under the Quick Disbursing Component.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS				
(Earthquake Emergency Assistance Project)				
CATEGORY				ADB FINANCING
Number	Item	Amount Allocated		Percentage and Basis for Withdrawal From the Loan Account*
		Category	Subcategory	
1	Equipment and Materials	34,351,000		100 percent of total expenditure
1A	Education		1,752,000	100 percent of total expenditure
1B	Health		7,361,000	100 percent of total expenditure
1C	Transport		1,052,000	100 percent of total expenditure
1D	Power		24,186,000	100 percent of total expenditure
2	Civil Works	95,340,000		100 percent of total expenditure
2A	Education		10,515,000	100 percent of total expenditure
2B	Health		8,412,000	100 percent of total expenditure
2C	Transport		72,557,000	100 percent of total expenditure
2D	Power		3,856,000	100 percent of total expenditure
3	Quick Disbursing	24,536,000		
Total		154,227,000		

* Exclusive of taxes and duties.

LIST OF ELIGIBLE ITEMS

No.	Code	Description
I.		List of General Imports for Rehabilitation and Reconstruction
1.		Natural rubber latex; natural rubber and similar natural gums
2.		Synthetic rubber latex; synthetic rubber and reclaimed rubber; waste and scrap of unhardened rubber
3.		Cork, natural, raw and waste (including natural cork in blocks or sheets)
4.		Fuel wood (excluding wood waste) and wood charcoal
5.		Pulpwood (including chips and wood waste)
6.		Other wood in the rough or roughly squared
7.		Pulp and waste paper Except: 251.1 Waste paper and paperboard; scrap articles of paper or of paperboard fit only for use in paper-making
8.		Cotton
9.		Jute and other textile bast fibres, raw or processed but not spun; tow and waste thereof (including pulled or garneted rags or ropes
10.		Vegetable textile fibres (other than cotton and jute) and waste of such fibres
11.		Synthetic fibres suitable for spinning
12.		Other manmade fibres suitable for spinning and waste of manmade fibres
13.		Wool and other animal hair (excluding wool tops)
14.		Fertilizers, crude
15.		Stone, sand and gravel
16.		Iron ore and concentrates
17.		Ores and concentrates of base metals, n.e.s.
18.		Non-ferrous base metal waste and scrap, n.e.s.
19.		Crude vegetable materials. n.e.s.
20.		Coal, lignite and peat
21.		Briquettes; coke and semi-coke of coal, lignite or peat; retort carbon
22.		Petroleum oils, crude, and crude oils obtained from bituminous minerals
23.		Petroleum products, refined
24.		Residual petroleum products, n.e.s. and related materials
25.		Hydrocarbons
26.		Nitrogen-function compounds
27.		Organo-inorganic and heterocyclic compounds
28.		Other organic chemicals
29.		Inorganic chemical elements, oxides and halogen salts
30.		Other inorganic chemicals; organic and inorganic compounds of precious metals
31.		Synthetic organic dyestuffs, etc., natural indigo and colour lakes
32.		Dyeing and tanning extracts, and synthetic tanning materials, excluding cadmium containing compounds
33.		Pigments, paints, varnishes and related materials, excluding cadmium

- containing compounds
34. Fertilizers, manufactured
 35. Condensation, polycondensation and polyaddition products, whether or nor modified or polymerized, and whether or not linear (e.g., phenoplasts, aminoplasts, alkyds, polyallyl esters and other unsaturated polyesters, silicones)
 36. Polymerization and copolymerization products (e.g., polyethylene, polytetrahaloethylenes, polyisobutylene, polystyrene, polyvinyl chloride, polyvinyl acetate, polyvinyl chloroacetate and other polyvinyl derivatives, polyacrylic and polymethacrylic derivatives, coumarone-indene resins)
 37. Regenerated cellulose; cellulose nitrate, cellulose acetate and other cellulose esters, cellulose ethers and other chemical derivatives
of cellulose, plasticized or not (e.g., collodions, celluloid); vulcanized fibre
 38. Other artificial resins and plastic materials
 39. Miscellaneous chemical products, n.e.s.
 40. Manufactures of leather or of composition leather, n.e.s.; saddlery and harness; parts of footwear, n.e.s.
 41. Material of rubber (e.g., pastes, plates, sheets, rods, thread, tubes, of rubber)
 42. Rubber tyres, tyre cases, interchangeable tyre treads, inner tubes and tyre flaps, for wheels of all kinds Except: (1) 625.12 Tyres, pneumatic, new, or fubber, for racing cars
 43. Articles of rubber, n.e.s.
 44. Cork manufactures
 45. Veneers, plywood, 'improved' or reconstituted wood, and other wood, worked, n.e.s.
 46. Wood manufactures, n.e.s.
 47. Paper and paperboard
 48. Paper and paperboard, cut to size or shape, and articles of paper or paperboard
 49. Textile yarn
 50. Fabrics, woven, of manmade fibres (not including narrow or special fabrics)
 51. Sacks and bags, of textile materials, of a kind used for the packing of goods
 52. Lime, cement, and fabricated construction materials (except glass and clay materials)
 53. Clay construction, materials and refractory construction materials
 54. Glass
 55. Pig iron, spiegeleisen, sponge iron, iron or steel powders and shot, and ferroalloys
 56. Ingots and other primary forms, of iron or steel
 57. Iron and steel bars, rods, angles, shapes and sections (including sheet

- piling)
58. Universals, plates and sheets, of iron or steel
 59. Hoop and strip, of iron or steel, hot-rolled or cold rolled
 60. Iron or steel wire (excluding wire rod), whether or not coated, but not insulated
 61. Tubes, pipes and fittings, of iron or steel
 62. Iron and steel castings, forgings, and stampings in the rough state
 63. Copper
 64. Nickel
 65. Aluminum
 66. Lead for construction purposes
 67. Zinc
 68. Tin
 69. Miscellaneous nonferrous base metals employed in metallurgy, and cermets
 70. Structures and parts of structures, n.e.s., of iron, steel or aluminum
 71. Containers for storage and transport
 72. Wire products (excluding insulated electrical wiring) and fencing grills
 73. Nails, screws, nuts, bolts, rivets and the like, of iron, steel or copper
 74. Tools for use in the hand or in machines
 75. Household equipment of base metal, n.e.s.
 76. Manufactures of base metal, n.e.s.
 77. `Steam and other vapour generating boilers, superheated water boilers, and auxiliary plant for use therewith; and parts thereof, n.e.s.
 78. Steam or other vapour power units, whether or not incorporating boilers (including mobile engines but not steam tractors, steam road rollers, or steam rail locomotives); and parts thereof, n.e.s.
 79. Internal combustion piston engines and parts thereof, n.e.s. Except: 713.2.5- Engines, piston, internal combustion, for armoured fighting vehicles
 80. Rotating electric plant and parts thereof, n.e.s.
 81. Other power generating machinery and parts thereof, n.e.s. Except: 718.7- Nuclear reactors, and parts thereof, n.e.s.
 82. Agricultural machinery (excluding tractors) and parts thereof, n.e.s.
 83. Tractors (other than those falling within headings 744.11 and 783.2), whether or not fitted with power take-offs, winches or pulleys
 84. Civil engineering and contractors' plant and equipment and parts thereof, n.e.s.
 85. Printing and bookbinding machinery, and parts thereof, n.e.s.
 86. Other machinery and equipment specialized for particular industries, and parts thereof, n.e.s. Other machinery and equipment specialized for particular industries, and parts thereof, n.e.s.
 87. Machine-tools for working metal or metal carbides, and parts and accessories thereof, n.e.s.
 88. Metalworking machinery (other than machine-tools), and parts thereof, n.e.s. Metalworking machinery (other than machine-tools), and parts thereof, n.e.s.
 89. Heating and cooling equipment and parts thereof, n.e.s. Except: (i)

- 741.31.10 Furnaces, electric, for separation or recycling of irradiated nuclear fuels or for treatment of radioactive waste; (ii) 741.31.38 Ovens, non-electric, for separation or recycling of irradiated nuclear fuels or for treatment of radioactive waste; (iii) 741.32.14 Furnaces, non-electric, for separation or recycling of irradiated nuclear fuels or for treatment of radioactive waste; (iv) 741.32.34 Ovens, nonelectric, for separation or recycling of irradiated nuclear fuels or for treatment of radioactive waste; (v) 741.5 Air conditioning machines, self-contained, comprising a motor-driven fan and elements for changing the temperature and humidity of air, and parts thereof, n.e.s.
90. Pumps (including motor and turbo pumps) for liquids, whether or not fitted with measuring devices; liquid elevators of bucket, chain, screw, band and similar kinds; parts, n.e.s. of such pumps and liquid elevators Pumps (including motor and turbo pumps) for liquids, whether or not fitted with measuring devices; liquid elevators of bucket, chain, screw, band and similar kinds; parts, n.e.s. of such pumps and liquid elevators
91. Pumps (other than pumps for liquids) and compressors; fans and blowers; centrifuges; filtering and purifying apparatus; and parts thereof, n.e.s. Except: (i) 743.5.1 Centrifuges for separating uranium isotopes, (ii) 743.5.2 Centrifuges for separation or recycling of irradiated nuclear fuels or for treatment of radioactive waste
92. Mechanical handling equipment, and parts thereof, n.e.s.
93. Other non-electrical machinery, tools and mechanical apparatus, and parts thereof, n.e.s. Except: 745.24 Automatic vending machines (e.g. stamp, cigarette, chocolate and food machines), not being games of skill or chance; and parts thereof, n.e.s.
94. Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, etc. (including pressure and temperature controlled valves)
95. Non-electric parts and accessories of machinery, n.e.s.
96. Office machines
97. Telecommunications equipment, n.e.s.; and parts, n.e.s., and accessories of apparatus falling within telecommunications, etc.
98. Electric power machinery (other than rotating electric plant of heading 716), and parts thereof, n.e.s.
99. Electrical apparatus for making and breaking electrical circuits, for the protection of electrical circuits, for making connections to or in electrical circuits (e.g., switches, relays, fuses, lightning arresters, surge suppressors, plugs, lamp holders and junction boxes); resistors, fixed or variable (including potentiometers), other than heating resistors; printed circuits; switchboards (other than telephone switchboards), and control panels, n.e.s.; parts, n.e.s. of the foregoing apparatus. Except: 772.3.3 Dimmers, light, theatre
100. Equipment for distributing electricity
101. Electrical machinery and apparatus, n.e.s. Except: 772.85 Particle accelerators, and parts thereof, n.e.s.
102. Motor vehicles for the transport of goods or materials for Earthquake rehabilitation and reconstruction
103. Parts and accessories, n.e.s. of the motor vehicles falling within heading 722 and 782

- 104. Trailers and other vehicles, not motorized, n.e.s. and specially designed and equipped transport containers Except: (i) 786.12.2 Library-trailers (ii) 786.12.3 Limbers, ammunition, armoured or not (iii) 786.12.9 Trailers, exhibition (iv) 786.12.13 Trailers, furniture-removal (v) 786.81 other vehicles, not mechanically propelled
- 105. Sanitary, plumbing and heating fixtures and fittings, n.e.s.
- 106. Furniture and parts thereof; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings
- 107. Instruments and appliances, n.e.s., for medical, surgical, dental or veterinary purposes
- 108. Meters and counters, n.e.s.
- 109. Measuring, checking, analyzing and controlling instruments and apparatus, n.e.s.; parts and accessories n.e.s. of the instruments and apparatus of groups of 873 and 874 Except: 874.52-Instruments, apparatus or models, designed solely for demonstrational purposes (e.g., in education or exhibition), unsuitable for other uses
- 110. Printed matter
- 111. Articles, n.e.s. of plastics
- 112. Office and stationery supplies, n.e.s.

II. Sector Related Imports for the Project

- 1. Community and household rainwater tanks, fittings, fixtures, and rainwater harvesting piping and harvesting equipment
 - 2. Desludging equipment, pumps, trailers and associated fixtures
 - 3. Materials for the construction of sludge drying beds
 - 4. Community and household septic tanks
 - 5. Sanitary and plumbing fixtures and fittings
 - 6. Solid waste management equipment for coping with debris, including glass and wood cutters, composters and compactors. Solid waste management equipment for coping with debris, including glass and wood cutters, composters and compactors.
 - 7. Communal solid waste bins
 - 8. Plumbing and rainwater harvesting tools and installation of solid waste management equipment.
 - 9. Seed
 - 10. Farming tools
 - 11. Fish processing equipment
 - 12. Urgent Purchase and import of helicopter fuel for use by the helicopters involved in the relief and rehabilitation operations
-

SCHEDULE 3B**Allocation and Withdrawal of Grant Proceeds**General

1. The table attached to this Schedule sets forth the Categories of goods, services and other items to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories and Subcategories listed in the Table shall be financed out of the proceeds of the Grant on the basis of the percentages set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Grant proceeds set forth in the Table,

(a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures; and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Grant then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, reallocate such excess amount to any other Category.

Imprest Accounts; Statement of Expenditures

4. (a) Except as ADB may otherwise agree, the Beneficiary shall establish immediately after the Effective Date, under the Consolidated Fund imprest accounts for EAs, as necessary, at the National Bank of Pakistan for the Project Sector Components and Implementation Assistance Component. The imprest accounts shall be established, managed, replenished and liquidated in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Beneficiary and ADB. Existing fund flow arrangements of the Beneficiary's government will be used to disburse funds from EAs' imprest accounts down to the district levels. The initial amount to be deposited into each imprest account shall not exceed the lesser of 3 months estimated eligible Project expenditures or 10% of the Grant amount.

Schedule 3B

(c) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures for the Project and to liquidate advances provided into the imprest account, in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Beneficiary and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed \$100,000 for the Project Sector Components and the Implementation Assistance Component.

Retroactive Financing

5. Withdrawals from the Grant Account may be made for reimbursement of reasonable eligible expenditures for the Project and incurred before the Effective Date, but not earlier than 8 October 2005, subject to a maximum amount of up to 30% of the Grant amount. Subject to the approval of the ADB Board of Directors, withdrawals from the Grant Account may be made for reimbursement of the cost of (i) consulting services related to surveys with respect to damage and needs assessment provided that the consultants have been engaged in accordance with procedures acceptable to ADB; and (ii) procurement activities related to the Power Sector Component, provided that such activities have been carried out in accordance with procedures acceptable to ADB. ADB has the right to refuse to finance contracts that have been entered into and do not meet ADB requirements.

Conditions of Withdrawals

6. No withdrawals shall be made for the Project Sector Components until detailed implementation, financial management and auditing arrangements shall have been developed and documented in an operational manual in substance and form satisfactory to ADB.

7. No withdrawals shall be made for the Project Sector Components and Implementation Assistance Component, until the financial terms and conditions for the Project shall have been approved by ECC and found satisfactory by ADB.

Quick Disbursing Component

8. Except as ADB may otherwise agree, the provisions of paragraph 8 of Schedule 3A shall apply to the withdrawal of Grant proceeds from the Grant Account with respect to the Quick Disbursing Component.

TABLE

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Earthquake Emergency Rehabilitation Project)				
CATEGORY				ADB FINANCING
Number	Item	Amount Allocated** \$		Percentage and Basis for Withdrawal from the Grant Account*
		Category	Subcategory	
1	Implementation Assistance	15,000,000		100 percent of total expenditure
1A	Legal Assistance, Governance and Institutional Building		2,500,000	100 percent of total expenditure
1B	Incremental Administrative Support		5,000,000	100 percent of total expenditure
1C	Consulting Services		7,500,000	100 percent of total expenditure
2	Quick Disbursing	65,000,000		
Total		80,000,000		

*Exclusive of taxes and duties

**Amounts are in million dollars

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of goods and services to be financed out of the proceeds of the Loan and the Grant. In this Schedule and the Attachment hereto, the term "goods" includes equipment and materials; the term "services" does not include consulting services.

2. Procurement of goods and services shall be subject to the provisions of the "Guidelines for Procurement under Asian Development Bank Loans" dated November 2004 (hereinafter called the Guidelines for Procurement), as amended from time to time, which have been furnished to the Beneficiary. In view of the urgency of activities to be covered under the Project and in accordance with ADB's *Disaster and Emergency Assistance Policy* (2004), the Guidelines for Procurement may be flexibly interpreted.

3. Procurement of goods and services shall be made without any restriction against, or preference for, any particular supplier or contractor or any particular class of suppliers or contractors, except as otherwise provided in paragraph 6 below.

International Competitive Bidding

4. (a) Each civil works contract estimated to cost the equivalent of more than \$5,000,000 and each supply contract for equipment or materials estimated to cost the equivalent of more than \$1,000,000 shall be awarded on the basis of international competitive bidding as described in Chapter II of the Guidelines for Procurement.

(b) For contracts to be awarded on the basis of international competitive bidding, there shall be submitted to ADB, as soon as possible, and in any event not later than 90 days before the issuance of the first invitation to bid for the Project, a General Procurement Notice (which ADB will arrange to publish separately) in such form and detail and containing such information as ADB shall reasonably request.

(c) For contracts to be awarded on the basis of international competitive bidding, procurement actions shall be subject to review by ADB in accordance with the procedures set forth in Chapter IV of the Guidelines for Procurement. Each draft invitation to bid, to be submitted to ADB for approval under such procedures, shall reach ADB at least 21 days before it is issued and shall contain such information as ADB shall reasonably request to enable ADB to arrange for the separate publication of such invitation. Due to the urgent nature of the Project, the bidding period shall be shortened to 30 days.

International Shopping

5. (a) Each supply contract for equipment or materials estimated to cost the equivalent of \$1,000,000 or less (other than minor items) shall be awarded on the basis of international shopping as described in Chapter III of the Guidelines for Procurement.

(b) Each draft invitation to bid and related bid document need not be submitted to ADB for approval before they are issued.

Domestic Preference

6. In comparing bids under international competitive bidding, a margin of preference may be provided, at the option of the Beneficiary and in accordance with the provisions of the Attachment to this Schedule, for

(a) goods manufactured in the territory of the Beneficiary, provided that the bidder offering such goods shall have established to the satisfaction of the Beneficiary and ADB that the domestic value added equals at least 20 percent of the ex-factory bid price of such goods; and

(b) civil works to be carried out by eligible domestic contractors, as defined by ADB.

Local Procurement

7. (a) Each civil works contract estimated to cost the equivalent of \$5,000,000 or less shall be awarded on the basis of local competitive bidding in accordance with the standard procurement procedures of the Beneficiary and acceptable to ADB. Postqualification with single stage two-envelope procedures, and usage of the Beneficiary's existing contractor registration system or contractors previously prequalified for works of similar size and nature is acceptable. Due to the urgent nature of the Project, the bidding period shall be shortened to 14 days.

(b) Civil works contract estimated to cost the equivalent of less than \$100,000 may be awarded to local contractors or those contractors who are working in the affected region on direct contracting basis at negotiated rates or at rates of ongoing contracts.

(c) Civil works contract estimated to cost the equivalent of \$100,000 or more but less than the equivalent of \$500,000 may be awarded following limited local competitive bidding procedures by inviting a limited number of registered or qualified contractors to participate in the bidding, including where practicable, the invitation for bids advertised in a national newspaper.

(d) For each contract estimated to cost the equivalent of more than \$1,000,000 and to be awarded on the basis of local competitive bidding, the draft bidding documents, technical and price evaluation reports and award recommendation for all packages shall be subject to prior review and approval by ADB. First contract procured by each IA and estimated to cost the equivalent of less than \$1,000,000, shall be subject to prior review and approval by ADB.

(e) For the subsequent contracts, bid evaluation and award of contracts shall be subject to post review by ADB. However, if the award or terms of any such contract are not subsequently approved by ADB, the Beneficiary shall be required to refund to ADB any payment made from the Loan or the Grant to finance such contract and to provide the financing from its own or other resources. The bid evaluation and contract documents for all

Schedule 4

packages estimated to cost the equivalent of \$1,000,000 or more shall require prior review and approval of ADB. Re-bidding and extension of bid validity shall be subject to ADB prior approval.

Procurement under the Quick Disbursing Component

8. Except as ADB may otherwise agree, the Eligible Items may be procured by private entities on behalf of the Beneficiary following normal local commercial procedures for the private sector or by the Beneficiary in accordance with Beneficiary's procurement procedures for public sector procurement, where such procedures are functioning and appropriate, and acceptable to ADB.

Community Participation

9. The Beneficiary shall ensure that EAs and IAs actively seek community participation in the selection, design, and implementation of all works carried out under the Project. To that extent, a provision shall be included in all tender documents that contractors shall give preference to local labor, where applicable. In particular, community participation in procurement of small works of a simple nature will be encouraged. To encourage community participation and use of indigenous materials, methods to incorporate community participation in procurement may be used for rural and municipal infrastructure. Small works contract estimated to cost the equivalent of \$20,000 or less in each case may be awarded to community organizations in accordance with practices and procedures acceptable to ADB.

10. The Beneficiary shall ensure that for works that can be done by both male and female workers, female workers shall be given equal opportunities to employment. The Beneficiary shall ensure that for all works carried out under the Project, the principle of equal pay for work of equal value shall be applied

Direct Purchase

11. Small or specialized equipment or materials, each estimated to cost the equivalent of \$100,000 or less, may be procured on a direct purchase basis through procedures acceptable to the ADB.

Advance Procurement Action

12. Given the urgency of the Project, ADB has approved advance action prior to the Effective Date, including ADB's approval of the recommendation for award of contract for the procurement of goods, services, and civil works. Notwithstanding approval of such advance action, the Beneficiary shall ensure that procurement of all such goods, services and civil works is carried out in accordance with the provisions of this Schedule.

Procurement in the event cofinancing to be provided by European Commission is approved

13. Subject to the approval of the ADB Board of Directors, goods and services for the Social Sectors Component may be procured from member-countries of the European Union, which are non-ADB member countries.

Industrial or Intellectual Property Rights

14. (a) The Beneficiary shall ensure that all ADB-financed goods and services procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Beneficiary shall ensure that all ADB-financed contracts for the procurement of goods and services contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

Preference for Domestically Manufactured Goods

1. In the procurement of goods through international competitive bidding, goods manufactured in the territory of the Beneficiary may be granted a margin of preference in accordance with the following provisions, provided that the bidder shall have established to the satisfaction of the Beneficiary and ADB that the domestic value added equals at least 20 percent of the ex-factory bid price of such goods. The 20 percent domestic value added applies to the total ex-factory bid price of the goods and not only to one item in a list.

- (a) For application of domestic preference, all responsive bids shall first be classified into the following three categories:

Category I -- bids offering goods manufactured in the territory of the Beneficiary which meet the minimum domestic value added requirement;

Category II -- bids offering other goods manufactured in the territory of the Beneficiary; and

Category III -- bids offering imported goods.

- (b) The lowest evaluated bid of each category shall then be determined by comparing all evaluated bids in each category among themselves, without taking into account customs duties and other import taxes levied in connection with the importation, and sales and similar taxes levied in connection with the sale or delivery, pursuant to the bids, of the goods.
- (c) Such lowest evaluated bids shall next be compared with each other and if, as a result of this comparison, a bid from Category I or Category II is found to be the lowest, it shall be selected for the award of contract.
- (d) If, however, as a result of the comparison under subparagraph (c) above, the lowest bid is found to be from Category III, it shall be further compared with the lowest evaluated bid from Category I. For the purpose of this further comparison only, an upward adjustment shall be made to the lowest evaluated bid price of Category III by adding either
- (i) the amount of customs duties and other import taxes which a nonexempt importer would have to pay for the importation of the goods offered in such Category III bid; or
 - (ii) 15 percent of the CIF bid price of such goods if the customs duties and import taxes referred to above exceed 15 percent of the CIF bid price.

If, after such further comparison, the Category I bid is determined to be the lowest, it shall be selected for the award of contract; if not, the lowest evaluated bid from Category III shall be selected for the award.

2. (a) Bidders applying for the preference shall provide evidence necessary to establish the eligibility of a bid for the preference, including the minimum domestic value added.

(b) The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of a bid for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above.

Domestic Preference for Turnkey Contracts and
Supply-and-Installation Contracts

3. In single-responsibility turnkey (including design-build) contracts and supply-and-installation contracts for large and complex packages, procured through international competitive bidding and in which discrete items of goods are grouped into one contract package and where the CIF cost of goods to be used for or in the permanent works under such contracts is estimated, prior to bidding, to equal or exceed 60 percent of the total cost of such works, a margin of preference shall be applied to the domestically manufactured goods in accordance with the following provisions, provided that the bidder shall have established to the satisfaction of the Beneficiary and ADB that the domestic value added equals at least 20 percent of the ex-factory bid price of such goods. The 20 percent domestic value added applies to the total ex-factory bid price of the goods and not only to one item in a list.

- (a) The margin of preference shall not be applied to the whole package but only to the domestically manufactured goods within the package.
- (b) Goods offered from outside the territory of the Beneficiary shall be quoted CIF and goods offered domestically shall be offered ex-factory or ex-works (free of sales and similar taxes).
- (c) All other cost components, such as design as well as works installation and supervision, shall be quoted separately.
- (d) In the comparison of bids (which should not be classified into Categories I, II or III as with the domestic preference for goods), only the CIF price in each bid of the goods offered from outside the territory of the Beneficiary shall be increased by the applicable duty and other taxes payable by a nonexempt importer or by 15 percent, whichever is less.
- (e) If duties vary from item to item within a package, the appropriate tariff for each item shall apply.
- (f) No margin of preference shall be applied to any associated services or works included in the package.
- (g) Bidders will not be permitted or required to modify the mix of domestic and foreign goods after bid opening.

4. (a) Bidders applying for the preference shall provide evidence necessary to establish the eligibility of a bid for the preference.

(b) The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of a bid for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above.

Preference for Domestic Contractors

5. In the selection of civil-works contractors, single-responsibility turnkey (including design-build) contractors or supply-and-installation contractors where the CIF cost of goods to be used for or in the permanent works under such contracts is less than 60 percent of the total cost of such works, eligible domestic contractors, as defined below, through international competitive bidding may be granted a margin of preference in accordance with the following provisions.

- (a) For application of domestic preference, all responsive bids shall first be classified into the following two categories:

Category I -- bids offered by domestic contractors and joint ventures eligible for the preference in accordance with the applicable criteria as set forth in paragraph 6 below; and

Category II -- bids offered by other contractors.

- (b) The lowest evaluated bid of each category shall then be determined by comparing all evaluated bids in each category among themselves.
- (c) Such lowest evaluated bids shall next be compared with each other and if, as a result of this comparison, a bid from Category I is found to be the lowest, it shall be selected for the award of contract.
- (d) If, however, as a result of the comparison under subparagraph (c) above, the lowest bid is found to be from Category II, it shall be further compared with the lowest evaluated bid from Category I. For the purpose of this further comparison only, an upward adjustment shall be made to the lowest evaluated bid price of Category II by adding an amount equal to seven-and-one-half percent of the bid price. If, after such comparison, the Category I bid is determined to be the lowest, it shall be selected for the award of contract; if not, the lowest evaluated bid from Category II shall be selected.

6. (a) To be eligible for the preference set forth in paragraph 5 above, domestic contractors must meet the following criteria:

- (i) firms are registered in the territory of the Beneficiary;
- (ii) firms have majority ownership by nationals of the Beneficiary; and
- (iii) firms will not subcontract more than 50 percent of the total value of their work to foreign contractors.

(b) A joint venture between a domestic contractor and its foreign partner shall be eligible for the preference only if it meets the following criteria:

- (i) the domestic partner(s) is individually eligible for the preference according to the criteria stated above;
- (ii) the domestic partner(s) would not qualify for the contract works on technical or financial grounds without the foreign participation; and
- (iii) the domestic partner(s) will, under the arrangements proposed, carry out at least 50 percent of the contract works measured in terms of value.

(c) Contractors applying for the preference shall be required to provide, as part of the data for qualification, necessary information, including details of ownership, for determining whether, according to the applicable criteria, a particular firm or group of firms qualifies for the preference.

7. The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of firms for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above. Bidders applying for the preference shall provide such additional information in support of such eligibility as may be requested by the Beneficiary and ADB.

SCHEDULE 5

Consultants

1. The services of consultants shall be utilized in the carrying out of the Project, particularly with regard to the Project Sector Components and the Implementation Assistance Component. The terms of reference of the consultants shall be as determined by agreement between ADB and the Beneficiary.

2. The selection, engagement and services of the consultants shall be subject to the provisions of this Schedule and the provisions of the "Guidelines on the Use of Consultants by Asian Development ADB and Its Borrowers" dated January 2005 (hereinafter called the Guidelines on the Use of Consultants), as amended from time to time, which have been furnished to the Beneficiary, and other arrangements acceptable to ADB.

3. Selection and engagement of the consultants shall be made without any restriction against, or preference for, any particular consultants or any particular class of consultants.

4. (a) In view of the urgency of the Project and in accordance with ADB's *Disaster and Emergency Assistance Policy* (2004), for the above-mentioned consulting services, qualified and existing consulting services on the ground should be extended and retrofitted to address emergency needs, provided that these consultants meet the following conditions: (i) appropriate expertise for the proposed assignment, (ii) capacity for immediate mobilization, and (iii) satisfactory performance in previous projects. Before a contract is signed with such consultants, three copies of the draft contract as negotiated shall be furnished to ADB for approval. Promptly after the contract is signed, ADB shall be furnished with three copies of the signed contract. If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to ADB for prior approval.

(b) Except as ADB may otherwise agree, the negotiation of a contract with the above-mentioned consultants shall be concluded within 90 days of the date of the Financing Agreement. If a contract cannot be successfully negotiated, other consultants shall be engaged in accordance with such other procedures, consistent with the Guidelines on the Use of Consultants, as shall be determined by ADB in consultation with the Beneficiary.

5. In cases other than those stipulated in paragraph 4 of this Schedule, the consultants shall be selected and engaged as a firm using the quality-and-cost-based selection (QCBS) method in accordance with the following procedures.

(a) Invitation for technical and financial proposals. The invitation to submit technical and financial proposals (hereinafter called the Request for Proposals or RFP) and all related documents shall be approved by ADB before they are issued. For this purpose, three copies of the draft RFP, the names of consultants to be short-listed, the proposed criteria for evaluation of both proposals, a draft consultancy contract, and other related documents shall be submitted to ADB. A period of at least 35 days shall be allowed for submission of both proposals. A copy of the final RFP as issued, together with all related documents, shall be furnished to ADB for information promptly after issuance. The validity period for the technical and financial proposals as provided in the RFP shall usually not

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exceed three months from the date specified for submission of the technical and financial proposals. The approval of ADB shall be obtained for any request to extend such validity period. Except as ADB may otherwise agree, the validity period, including any extensions, shall not exceed a maximum total period of six months. If the contract is not signed within the validity period in accordance with the Guidelines on the Use of Consultants, the selection shall be invalid and the selection and engagement process as provided in this paragraph shall be followed again.

(b) Evaluation and scoring of technical proposals. Immediately after the technical proposals have been evaluated and scored, approval of ADB shall be obtained to the evaluation and scoring of the technical proposals. For this purpose, ADB shall be furnished with three copies of the technical proposals.

(c) Public opening of financial proposals. The financial proposals of the firms whose technical proposals meet the minimum qualifying technical score shall be opened publicly after adequate notice is given to such firms or their representatives to attend the opening of the financial proposals.

(d) Evaluation and scoring of financial proposals and ranking of technical and financial proposals. After the financial proposals have been evaluated and scored, the ranking of the technical and financial proposals shall be made. Before negotiations are started with the first-ranked consultants, approval of ADB shall be obtained to the evaluation and scoring of the financial proposals and the ranking of the technical and financial proposals. For this purpose, ADB shall be provided with three copies of (i) the evaluation and scoring of the financial proposals and (ii) the ranking of the technical and financial proposals.

(e) Execution of contract. After the conclusion of negotiations but before the signing of the contract, ADB shall be furnished with the contract as negotiated for approval. Promptly after the contract is signed, ADB shall be furnished with three copies of the signed contract. If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to ADB for prior approval.

6. In case of individual consultants to be engaged, the consultants shall be selected and engaged in accordance with the following procedures:

(a) A list of the candidates together with their qualifications and their ranking and a draft contract shall be furnished to ADB for approval before the selection of consultants.

(b) Promptly after the contract is signed, ADB shall be furnished with the evaluation of the candidates and a brief justification for the selection, together with three copies of the signed contract.

(c) If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to ADB for prior approval.

7. Given the urgency of the Project, ADB has approved advance action prior to the Effective Date, including ADB's approval of the recommendation for award of contract for consulting services. Notwithstanding approval of such advance action, the

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Beneficiary shall ensure that recruitment of consultants is carried out in accordance with the provisions of this Schedule.

8. The Beneficiary shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

SCHEDULE 6

Execution of Project and Operation of Project Facilities; Financial Matters

Project Execution and Implementation Arrangements

The Beneficiary shall ensure that AJK and NWFP perform each of its undertakings under this Schedule.

1. ERRA shall be the EA for the Project and MOF shall be the EA for the the Quick Disbursing Component. In its operations, ERRA's Board, chaired by ERRA's Chairman, shall implement the Project through RAs, provincial and district line departments following current procedures, on fact track basis. ERRA shall also approve major changes in scope and cost of the subprojects, annual plans and budgets, and support IAs with financial and technical management.

2. ERRA shall be staffed by various specialist professionals deputed from relevant government departments (also from the Beneficiary's federal government and other provinces), and hired from private sector as necessary for ERRA to carry out its functions. Periodic social and technical monitoring, regular review and overall financial audits of the Project will be carried out by ERRA. AGP, MOF and CGA will prescribe the related procedures and requirements for fiduciary monitoring. IAs shall develop the subprojects following the selection criteria and social compliance, through public consultation, based on procedures outlined in Appendix 10 to RRP and to be formalized in an operational manual to be prepared by ERRA.

3. EAs and IAs responsible for implementation of the Project shall be as below:

Component	EA	IA
Quick Disbursing Component	MOF	
Transport Sector Component	ERRA	AJK RA, Local Government and Rural Development Department and the Public Works Department of AJK; NWFP RA, line departments of NWFP; district governments; and FHA
Power Sector Component	ERRA	PESCO, IESCO, SHYDO and Department of Electricity of AJK

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Social Sector Component	ERRA	AJK RA,
Education Sector Component		Education
		Department of AJK
Health Sector Subcomponent	ERRA	AJK RA, Health
		Department of AJK
Implementation Assistance Component	ERRA	
Legal Assistance, Governance and Institutional Building Subcomponent	ERRA	

4. SCs of AJK and NWFP shall be headed by the respective Additional Chief Secretaries and shall have representation of ERRA, provincial line departments and districts. SCs and ERRA will approve work-plans, budgets and provide overall guidance, in line with emergency procedures to be put in-place by the ERRA Council and/or Board.

5. DACs/DDCs headed by DCO or Nazims in NWFP and Deputy Commissioners in AJK, will be responsible for identification of subprojects and needs, and recommend plans for approval of the respective SC.

6. The ERRA, RAs and line departments staff requirements, and related operating costs, will be funded by the Project. IAs additional incremental staff and overhead cost for sub-project implementation, and technical backstopping and technical assistance support for IAs to plan, design, supervise and implement the subprojects, will be financed by the subprojects.

7. In addition to the foregoing, the Beneficiary shall implement the Project in accordance with the detailed implementation arrangements in the RRP, as may be further refined or amended by agreement between ADB and the Beneficiary.

8. The Beneficiary shall ensure that within one month of the Effective Date the Project Implementation Agreement, substantially in the format, acceptable to ADB, is signed between (i) NWFP and SHYDO; (ii) NWFP and FHA; (iii) NWFP and each of the district governments; (iv) NWFP and NWFP RA; and (v) AJK and AJK RA.

Subproject Selection

9. The Beneficiary shall ensure that all subprojects are selected in accordance with the agreed criteria, procedures and implementation arrangements stipulated in the RRP, as may be amended by agreement between ADB and the Beneficiary.

10. The Beneficiary shall ensure that the first 2 subprojects to be implemented by each IA shall be subject to prior review and approval by ADB before commencement. Any subsequent subproject estimated to cost the equivalent of more than \$500,000 but less than \$3,000,000 shall be submitted to SC, and ADB for information only, while subproject estimated to cost the equivalent of more than \$3,000,000 shall be subject to prior review and approval by ADB. Subproject estimated to cost the equivalent of \$500,000 or less shall be subject to approval by the respective SC and random audit and checks by ADB to ensure

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compliance with requirements of subproject selection criteria and implementation arrangements in Appendix 10 to the RRP.

Project facilities

11. AJK and NWFP shall ensure that the facilities provided under the Project are operated and maintained appropriately, and that adequate budgetary and other resources are provided for operation and maintenance.

Legal Assistance, Governance and Institutional Building

12. The Beneficiary shall provide legal facilitation and assistance to earthquake victims for accessing legal entitlements and to help them to address issues of legal entitlement arising from the earthquake, including an earthquake legal framework that shall be adopted for making special provision for persons and property affected by the earthquake and vulnerable people.

13. The Beneficiary shall ensure that NWFP and AJK shall implement the Legal Assistance, Governance and Institutional Building Subcomponent in accordance with the following principles: (i) affected people are offered people- centered solutions and recognition is given, at an early stage, that vulnerable groups require special and urgent arrangements; (ii) rehabilitation activity is designed for, and implemented by, the lowest level of mandated and competent agency; (iii) durable arrangements are made, which assign clear responsibilities for central and localized strategic coordination; (iv) needs and sectorial technical responses are assessed and defined in ways that avoid unmanageable demands; (v) innovative institutional arrangements are created (even if only temporary) through which specialized expertise can be quickly mobilized and held accountable; and (vi) validation, audit, accountability, judicial and quasi-judicial arrangements are stipulated with a clear view of enhancing the predictability of outcomes for disaster affected people

14. In furtherance of the principles set out in paragraph above, the Beneficiary shall or ensure that NWFP and AJK shall, do the following:

- (i) federal and local government departments shall develop new modalities in order to expedite the process of providing duplicates of legal documents to earthquake affected people;
- (ii) train judicial, revenue, local officials and police in dealing with legal and executive problems and issues arising from the earthquake and provide public legal awareness workshops in or for the earthquake affected areas;
- (iii) create a decentralized provincial system of public grievance review and alternative dispute resolution will be established or supported in the earthquake affected areas and staffed by independent persons;
- (iv) ensure that information on earthquake assistance, post earthquake rehabilitation and reconstruction, names of affectees and extent of damage suffered by them, and related laws and policies, shall be placed on an earthquake web-site, and

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published in Urdu, Pushtoo and English in local newspapers. This would require some coordination amongst departments, donors, and NGOs to obtain the appropriate information. The information to be included may present financial statements, track procurement contract awards, including its amount, and basic information on the processes adopted, list of goods or services purchased and their utilization.

15. Awareness raising activities in communities on the importance of national identity cards (“NICs”) shall be followed by an intensive NIC issuance campaign. In cooperation with the National Database Registration Authority (“NADRA”) and union council members, where appropriate, mobile NIC units shall go to earthquake affected areas and issue NICs. The mobile unit shall be equipped with photo taking and processing equipment as well as other material needed to issue NICs. Union council members or other appropriate local leaders shall be involved to attest on the accuracy of information provided by villagers. To avoid dependence on one single person for attestation, an alternative form of attestation shall be developed for this specific campaign. The staff of the mobile unit shall include at least one woman to ensure that female villagers have opportunities to obtain NICs.

Environment, Resettlement, Gender and Vulnerable People

16. The Beneficiary shall ensure that adequate environmental mitigation measures in accordance with (a) the Beneficiary’s environmental regulations and (b) ADB’s *Environment Policy* (2002) are incorporated into all subproject designs and implementation. The Beneficiary shall ensure that the EMP to mitigate any adverse environmental impacts of any subproject is implemented, and in the event that unexpected impacts occur, remedial measures are prepared in consultation with ADB. The Beneficiary shall ensure that the agreed EARF is applied in selecting subprojects; that a subproject for which an environmental assessment study is required has such required study completed and a subproject for which Beneficiary environmental clearance is required obtains such clearance prior to the award of any contracts for that subproject.

17. The Beneficiary shall ensure that, to the extent possible, subprojects shall avoid land acquisition and involuntary relocation. In the event land acquisition or involuntary relocation is required for any subproject, the Beneficiary shall prepare an RP in accordance with the Beneficiary’s applicable laws and regulations, ADB’s *Policy on Involuntary Resettlement* (1995) and the agreed RF; and submit it to ADB for review and approval before resettlement is initiated. The RPs shall be disclosed to all affected persons in their own languages and the Project reporting shall provide information on land acquisition and resettlement.

18. The Beneficiary shall ensure that the agreed GAP is fully implemented and that adequate resources are allocated for this purpose in a timely manner. In particular, the Beneficiary shall ensure (a) equal participation of women in the reconstruction planning; (b) recovery of livelihood of women and economic activities for women, especially those who have become head of family; (c) equal access of women and men to infrastructure activities in relation to planning, construction, as users and in maintenance; (d) equal compensations for women for land acquisition under the Project; and (e) equal wages for female workers in reconstruction and rehabilitation activities.

19. The Beneficiary shall ensure that the agreed VPAP is fully implemented and that adequate resources are allocated for this purpose in a timely manner. In particular, the Beneficiary shall ensure (a) equal participation of vulnerable people in the reconstruction planning; (b) recovery of livelihood and economic activities for vulnerable, particularly the disabled and those who have lost their support networks; (c) equal access of vulnerable groups to infrastructure activities in relation to planning, construction (when possible), as users and in maintenance (when possible); (d) equal compensations for vulnerable people for land acquisition under the Project; and (e) equal wages for vulnerable groups workers in reconstruction and rehabilitation activities.

Anticorruption and Good Governance

20. The Beneficiary acknowledges that consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any activities relating to the Project. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* (1998) are included in the Loan and Grant Regulations and the bidding documents for the Project. In particular, 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 EAs, IAs and all contractors, suppliers, consultants and other service providers as they relate to the Project.

21. The Beneficiary through ERRA shall publicly disclose on the website for the Project information on how the funds are being used for the intended beneficiaries following applicable procedures. The website shall present financial statements and track procurement contract awards, and include information on, among others, the list of participating bidders, name of the winning bidder, basic details on bidding procedures adopted, amount of the contract awarded, the list of goods and/or services purchased, and their intended and actual utilization. Likewise, national and provincial/ AJK newspapers in Urdu, Pushtoo and English will carry such details on a regular basis, at least once a month. Similarly, TV and radio broadcasts will be made in these language broadcasts at national and provincial/AJK levels giving these same details.

Financial Management

22. The Beneficiary shall ensure that MOF manages the Consolidated Fund, as a non-lapsable account, and puts in place the related fiduciary arrangements to ensure transparency in funds flow, financial management, accounting, internal control processes, procurement, periodic financial reporting, monitoring and internal and external audits. The CGA, AGP and MOF will provide the related guidelines, and ensure that all relevant government statutory provisions and prudential regulations are followed. Disbursement of the Project funds will follow existing accounting and audit procedures.

23. The Beneficiary shall ensure that the fund flow arrangement described in the RRP, is observed. The Beneficiary shall also ensure that adequate budgetary allocations of required counterpart funds are made available and released in a timely manner to AJK, NWFP, PESCO and IESCO in accordance with detailed arrangements stipulated in the RRP. Such counterpart funds provided to AJK and NWFP shall be in addition to, and not in place of AJK's and NWFP's development budget and shall be applied in a timely manner by AJK and NWFP to agreed Project expenditures. AJK and NWFP shall ensure that adequate

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budgetary allocations of required counterpart funds are made available and released in a timely manner to respective IAs for each financial year of the Project implementation period; and that each IA applies such counterpart funds to agreed Project expenditures.

24. ERRRA shall provide ADB with quarterly financial and physical progress reports, as well as annually audited financial statements, of the use of donor and ADB funds. The financial reporting and audit requirements will be as developed by CGA and AGP, which will include controls, audit and reporting mechanism that are at least at par with the mechanisms followed under on-going ADB funded projects. The AGP will nominate private chartered accountants, if required, to meet the increased burden and to demonstrate transparency. For the first year, semiannual audits will be conducted and will include a specific audit report on the Project funds, with EAs and IAs.

25. The Beneficiary shall ensure that proper accounting and audit procedures are in place to ensure efficient and economic use of the ADB financing proceeds. Accounts and financial statements in relation to the Project and the subprojects shall be maintained and certified by independent auditors acceptable to ADB. The Beneficiary, EAs and IAs shall allow ADB representatives to carry out spot or random checks on the flow of funds through the imprest accounts. The Beneficiary, EAs and IAs shall allow independent auditors, acceptable to ADB, to undertake performance audits on a random basis to review, among others, implementation of (a) GAP; (b) VPAP; and (c) compliance with ADB's safeguard policies. The Beneficiary shall also ensure that post completion audit is conducted by the independent auditors, acceptable to ADB soon after the completion of the Project.