



Increase in Financing of the Earthquake Emergency Assistance Project

Project Number: 39631
Loan Number: 2213
September 2007

Pakistan: Pakistan Earthquake Fund and Earthquake Emergency Assistance Project

CURRENCY EQUIVALENTS

(as of 31 August 2007)

Currency Unit	–	Pakistan rupee/rupees (PRe/PRs)
PRe1.00	=	\$0.01667
\$1.00	=	PRs60

ABBREVIATIONS

ADB	–	Asian Development Bank
EEAP	–	Earthquake Emergency Assistance Project
ERRA	–	Earthquake Rehabilitation and Reconstruction Authority
NWFP	–	North-West Frontier Province
PEF	–	Pakistan Earthquake Fund

NOTES

- (i) In this report, "\$" refers to US dollars.
- (ii) The Earthquake Emergency Assistance Project is being partially carried out in Azad Jammu and Kashmir, an area over which Pakistan and India have been in dispute since 1947. By financing the Project, the Asian Development Bank does not intend to make any judgment as to the legal or other status of any disputed territories or to prejudice the final determination of the parties' claims.

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I. INTRODUCTION

1. On 14 November 2005, the Board of Directors of the Asian Development Bank (ADB) approved the establishment of the Pakistan Earthquake Fund¹ (PEF), including an initial grant contribution from ADB of \$80 million, to support the reconstruction efforts of the Government of Pakistan (the Government) after the 8 October 2005 earthquake. On 13 December 2005², the Board approved the Earthquake Emergency Assistance Project (EEAP) amounting to \$300 million, consisting of an \$80 million grant from the PEF and a loan of \$220 million from the Asian Development Fund. On 8 December 2006 the Board approved³ an increase of \$65 million in the grant financing of the EEAP, using a \$27.5 million grant from the PEF and \$37.5 million (equivalent to €30 million) cofinancing from the European Union. The Board⁴ further increased the EEAP loan financing by \$12.5 million on 22 March 2007, taking the overall financing of the EEAP to \$377.5 million.

2. In November 2006, the Government of Norway signed an instrument of contribution for \$20 million for the PEF and in March 2007 Belgium signed an instrument of contribution for €9.92 million. Both instruments of contribution are qualified, with a focus on social sectors and a geographic preference for earthquake-affected districts of the North-West Frontier Province (NWFP). In June 2007, ADB received a request from the Government for a \$30 million increase in financing and change in scope of the EEAP to include reconstruction and rehabilitation of approximately 126 primary, middle, and high schools in two affected districts of the NWFP, Battagram and Shangla. The proposal covers: (i) reconstruction of school buildings according to improved earthquake-resistant designs, including latrines and office accommodation; (ii) provision of all essential furniture and equipment for the reconstructed schools; and (iii) consultancy services and incremental staff support for strengthening school management committees, review and approval of school design, and contract management.

3. This paper seeks the Board's approval for a \$30 million increase in the grant financing of the EEAP, using the contributions from the Governments of Norway and Belgium to the PEF.

II. BACKGROUND

A. Status of the Earthquake Emergency Assistance Project

4. The financing agreement for the EEAP was declared effective on 14 February 2006. The loan closing date is 30 June 2009. The EEAP is a response to the devastating impact of the earthquake and is intended to revive economic activity and enable residents of earthquake-affected regions to resume their livelihoods and return to normal life. This will be achieved by rehabilitating and reconstructing damaged and destroyed infrastructure in the transport, power, health, and education sectors, and by providing assistance for better financial management and governance. In accordance with ADB's *Disaster and Emergency Assistance Policy (2004)* a portion of the Project's funds (\$100 million) was used for quick-disbursing assistance, partly to finance the unusually high and unexpected import expenditures required for rehabilitation and reconstruction. This portion has already been disbursed. The Executing Agency of the EEAP is the newly created Earthquake Reconstruction and Rehabilitation Agency.

¹Mitchell, A. 2005 (R 300-05). *Pakistan Earthquake Fund*. Manila: ADB

²Garcia, F. 2005 (R 36-05). *Proposed Loan Pakistan Earthquake Fund Grant and Technical Assistance Grant Earthquake Emergency Assistance Project*. Manila: ADB

³Shafi, M. S. 2006 (R299-06). *Proposed Change to Rules Governing Contributions to the Pakistan Earthquake Fund and Increase in Financing and Change in Implementation Arrangements of Loan 2213-PAK*. Manila: ADB

⁴Abbas, Samia M. 2007 (R33-07). *Use of Loan Savings for Emergency Rehabilitation and Reconstruction of Earthquake-Affected Areas in Pakistan*. Manila: ADB

5. The overall performance of the Project is generally satisfactory. As of 31 July 2007, the physical progress achieved was 18%. For the loan funding, 24% of contract awards and 26% of disbursements have been made. For the grant funding, 46% each of contract awards and disbursements have been made. Progress has been generally satisfactory in the road and the power components, for which substantial numbers of contracts have been awarded. Progress in the health and education components has been partly satisfactory, mainly because of a poor response from national contractors and slower than expected appraisal and approval processes in these sectors. Progress is expected to improve now that the consultants are fully mobilized. The time lost in processing is being recouped by packaging works under these two components into large contracts for international competitive bidding (ICB). The first two ICB packages in these sectors are at the final stage of contract award.

III. PROPOSED CHANGES

A. Increase in Financing for the Earthquake Emergency Assistance Project

6. ADB received a request from the Government on 18 June 2007 for a \$30 million increase in financing and a change in scope of the EEAP using PEF contributions from Norway and Belgium for reconstruction and rehabilitation of approximately 126 primary, middle, and high schools in two affected districts of the NWFP, Battagram and Shangla.

7. The revised financing plan, reflecting an increase of \$30 million in the financing of the EEAP by ADB, is detailed in Table 1. The Government will increase its contribution to the EEAP by \$1.51 million equivalent to fund the duties, taxes and minor land acquisition costs.

Table 1: Revised Financing Plan
(\$ million)

Source	Board-Approved Revisions							
	At Inception		Revision 22 Jan 07		Revision 22 Mar 07		Proposed Revision	
	Cost	%	Cost	%	Cost	%	Cost	%
A. ADB Grant (PEF)	80.00	21	80.00	18	80.00	18	80.00	17
ADB ADF Loan	220.00	59	220.00	50	232.50	52	232.50	48
B. Finland Grant (PEF)			12.50	3	12.50	3	12.50	3
C. Australia Grant (PEF)			15.00	3	15.00	3	15.00	3
D. European Commission Grant (Cofinancing)			37.50	9	37.50	8	37.50	8
E. Norway (PEF)							20.00	4
F. Belgium (PEF)							10.00	2
G. Government	74.20	20	74.20	17	74.20	16	75.71	15
Total	374.20	100	439.20	100	451.70	100	483.21	100

ADB = Asian Development Bank, ADF = Asian Development Fund, PEF = Pakistan Earthquake Fund.
Source: ADB estimates.

B. Proposed Use of Additional Financing

8. The additional funding will be used for reconstruction and rehabilitation of approximately 126 primary, middle, and high schools in two remote earthquake-affected districts of the NWFP, Battagram and Shangla. The earthquake-affected population is generally reluctant to resettle in the affected areas because of the lack of schooling and health services. The reconstruction effort is currently focused mainly on housing. However without social services the housing

efforts have also been curtailed. Social sector efforts are constrained by the capacity of the Government institutions delivering social services and the availability of adequate funds to reconstruct the damaged infrastructure. In the education sector, there is a current shortfall of more than \$640 million and the Government is unable to finance this funding gap from its own resources. Funding gaps are more pronounced in remote districts.

9. An increase in financing for the social sector components of the EEAP will fund: (i) reconstruction of about 126 school buildings according to improved earthquake-resistant designs, including latrines, office accommodation and related services; (ii) provision of all essential furniture and equipment for the schools to be reconstructed; and (iii) consultancy services and incremental staff support to strengthen school management committees, review and approve school design and for contract management. Implementation will be carried out using existing institutions and departments. The focus of assistance will be on strengthening the planning, management, and overall monitoring capacities of these institutions. The approach to reconstruction will focus on use of “turn-key” contracts and innovative and rapid construction that is able to meet local requirements and to deliver in the short construction periods in remote and hilly terrains. The design methodology and materials selection for school reconstruction would need to ensure better quality control and earthquake-resistant building standards. The original and revised cost and financing plan of the EEAP, including the revised cost of the education and implementation assistance components, is provided in Table 2.

Table 2: Original and Revised Cost and Financing of EEAP

S.No Category	Funding (\$ million)												Estimated cost (\$ million)				
	ADB		Pakistan*		Australia**		Finland***		EC		Norway		Belgium		Approved ¹	Revised	
	Loan - 2213	Grant - 0029	Grant - 0029	Grant - 0029	Grant - 0029	Grant - 0029	Grant - 0037	Grant - 0029	Grant - 0029	Grant - 0029	Grant - 0029						
%	Cost	%	Cost	%	Cost	%	Cost	%	Cost	%	Cost	%	Cost				
1. Quick Disbursement	0.00	89	65.00	11	8.13	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	73.13	73.13		
	100	47.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	47.50	47.50		
2. Project Components	185.00	0.00	63.18	14.70	0	33.44	17.00	8.20	294.81	321.52							
a. Education	24	24.35	0.00	10	9.63	7	7.35	0	0.00	33	33.44	17	17.00	8	8.20	73.26	99.97
b. Health	57	17.11	0.00	19	5.70	24	7.35	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	30.16	30.16
c. Transport	75	119.00	0.00	25	39.67	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	158.66	158.66
d. Power	75	24.55	0.00	25	8.18	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	32.73	32.73
e. Implementation Assistance	0.00	15.00	0.00	0.00	12.25	3.31	2.60	1.60	30.56	34.76							
i. Legal Assist & Govern	0.00	22	0.80	0.00	0.00	78	2.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.60	3.60
ii. Incr Staff Support	0.00	45	5.65	0.00	0.00	25	3.17	1.10	13	1.61	9	1.1	9.92	12.62			
iii. Consulting Services	0.00	46	8.55	0.00	0.00	34	6.28	12	2.21	5	0.99	3	0.51	17.04	18.54		
3. Service Charges	0.00	0.00	0.00	0.30	0.25	0.75	0.40	0.20	1.30	1.90							
4. Interest During Implementation	0.00	0.00	100	4.40	0.00	0.00	0.00	0.00	4.40	4.40							
Grant Total	232.50	80.00	75.71	15.00	12.50	37.50	20.00	10.00	451.70	483.21							

Note: *Inclusive of all duties and taxes **1 Australian\$ = \$0.75 *** 1 € = \$1.25

EC = European Commission, EEAP = Earthquake Emergency Assistance Project.

Source: ¹Shafi, M. S. 2007. *Major Change in Scope and Implementation Arrangement; Reallocation of Loan Proceeds*. Manila: ADB

IV. STAFF VIEWS ON THE USE OF ADDITIONAL CONTRIBUTIONS TO THE PAKISTAN EARTHQUAKE FUND

10. The increase in grant funding of the EEAP arising from the contributions made by the Governments of Norway and Belgium to the PEF requires approval by the ADB Board of Directors. The additional funding does not fall under the scope of the policy on supplementary financing or the Operations Manual section on supplementary financing⁵. A separate memorandum detailing a major change in the scope, implementation arrangements, and allocation of additional grant proceeds for the EEAP has been processed, subject to the Board's approval of this paper.

11. The Government has requested an increase of \$30.0 million equivalent in the financing of the EEAP arising from \$20 million and €9.92 million contributions made by the Governments of Norway and Belgium to the PEF. The Government request is in line with para. 11 of the paper establishing the PEF (footnote 1), which allows PEF resources to be combined with other ADB resources to provide favorable financing terms for Pakistan. The Government request, which was received on 18 June 2007 (19 months after approval of the PEF) is also in line with paras. 18 and 24 of the paper as subsequently amended (footnote 3), which states that:

- (i) the commitments from other contributors must be received within 24 months of the date on which the Board approved the PEF, and that the contributions related to such commitments must be received within 30 months of the date on which the Board approved the PEF; and
- (ii) the requests from Pakistan for funds to be allocated under the PEF must be received by ADB, and legal documents must be executed by ADB and recipients, within 24 months of the date on which the Board approved the PEF, and the legal documents must become effective and disbursements must have commenced within 27 months of the date on which the Board approved the PEF.

V. THE PRESIDENT'S RECOMMENDATION

12. The President recommends that the Board approve an increase equivalent to \$30 million in grant financing from the Pakistan Earthquake Fund (PEF) for the Earthquake Emergency Assistance Project arising from the \$20 million contribution made by the Government of Norway and \$10 million equivalent from the €9.92 million contribution made by the Government of Belgium to the Pakistan Earthquake Fund.

⁵ ADB. 2005. *Operations Manual*. Section H/5BP. Supplementary Financing. Manila.