



Report and Recommendation of the President to the Board of Directors

Project Number: 40563
June 2007

Proposed Loan and Pakistan Earthquake Fund
Technical Assistance Grant
Islamic Republic of Pakistan: Earthquake-Displaced
People Livelihood Restoration Program

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 31 May 2007)

Currency Unit	–	Pakistan rupee/s (Pre/PRs)
Pre1.00	=	\$0.0165
\$1.00	=	PRs60.71

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AGP	–	Auditor General of Pakistan
AJK	–	Azad Jammu and Kashmir
AusAID	–	Australian Agency for International Development
CAS	–	Chartered Accountants
CGA	–	Controller General of Accounts
DFID	–	Department for International Development
DRU	–	district reconstruction unit
EA	–	executing agency
EAL	–	emergency assistance loan
EARF	–	Environmental Assessment and Review Framework
EEAP	–	Earthquake Emergency Assistance Project
EMEF	–	Earthquake Monitoring and Evaluation Framework
EMP	–	environmental management plan
ERRA	–	Earthquake Reconstruction and Rehabilitation Authority
FMR	–	financial monitoring report
FY	–	fiscal year
GVAP	–	Gender and Vulnerability Action Plan
IA	–	implementing agency
IEE	–	initial environmental examination
JFPR	–	Japan Fund for Poverty Reduction
M&E	–	monitoring and evaluation
MDC	–	monitoring data collection
MEAC	–	Monitoring and Evaluation Advisory Committee
MOF	–	Ministry of Finance
NGO	–	nongovernment organization
NWFP	–	North-West Frontier Province
PDMA	–	preliminary damage needs assessment
PEF	–	Pakistan Earthquake Fund
PERRA	–	Provincial Earthquake Reconstruction and Rehabilitation Agency
PIFRA	–	project improvement of financial reporting and auditing
PPAF	–	Pakistan Poverty Alleviation Fund
SBP	–	State Bank of Pakistan
SERRA	–	State Earthquake Reconstruction and Rehabilitation Agency
TA	–	technical assistance
TPV	–	third party validation
UN HABITAT	–	United Nations Human Settlements Programme
UNDP	–	United Nations Development Programme
USAID	–	United States Agency for International Development
WB	–	World Bank

NOTES

- (i) The proposed Program will be carried out in Azad Jammu Kashmir, an area over which Pakistan and India have been in dispute since 1947. By financing the proposed Program, 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.
- (ii) The fiscal year (FY) of the Government and its agencies ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2006 ends on 30 June 2006.
- (iii) In this report, "\$" refers to US dollars.

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Terms of Reference for Partner Organizations and Procurement Plan

LOAN AND PROGRAM SUMMARY

Borrower	Islamic Republic of Pakistan
Classification	Targeting classification: Targeted intervention Sector: Multisector Subsectors: Housing finance Themes: Gender and development, inclusive social development, capacity development Subthemes: Gender equity in capabilities, human development, institutional development
Environment Assessment	Category B. An initial environmental examination was undertaken.
Program Description	<p>The proposed emergency assistance loan (EAL) for the Earthquake-Displaced People Livelihood Restoration Program (the Program) will be the Asian Development Bank's (ADB) second loan to support the Government of Pakistan's (the Government) ongoing earthquake reconstruction and rehabilitation (R&R) program. The first loan for Earthquake Emergency Assistance Project (EEAP), approved in December 2005 following the devastating earthquake on 8 October 2005, targeted the reconstruction in several infrastructure sectors, including power, roads, health, and education. The proposed EAL, which will be provided to the Ministry of Finance (MOF) on a quick-disbursing basis, will be used to finance the reconstruction of seismically compliant houses.</p> <p>In addition, through an attached technical assistance (TA), the Program will help build the capacities of the Earthquake Reconstruction and Rehabilitation Authority (ERRA) and other related institutions in seismic training, financial and strategic management, and environmental and social protection to support the R&R program.</p>
Rationale	<p>The October 2005 earthquake was devastating. Almost 18 months after the disaster, about 30,000 people are still living in tents and 3.5 million more are living in temporary or semi-permanent shelters. The past two winters have been extremely harsh and difficult. The risk of another earthquake is also real. In light of these risks, the Government is determined to complete housing reconstruction by May 2008, making the winter of 2007 the last one for most displaced people before moving them into newly built seismically compliant houses.</p>

The Program is proposed as an EAL to help the Government maintain its overall national development program while it continues to respond to the urgent requirements of earthquake reconstruction. The proposed support is an integral part of the overall commitment made by ADB to the Government in the aftermath of the earthquake to mobilize up to \$1 billion. Lessons learned from past ADB interventions in Pakistan and elsewhere, as well as those of other development partners, clearly justify EAL support on a programmatic basis. Specifically, two characteristics of the housing reconstruction program are worth noting: first, the timeframe is tight, as the entire housing reconstruction program is expected to be completed by May 2008; second, an owner-driven implementation approach will be followed, where money will be provided to a large number of individual households which will procure needed materials and build their own houses based on the seismically compliant housing designs provided by ERRA. ADB's project financing or sector financing will not be able to meet this need effectively. Hence, some useful features of the programmatic financing approach, namely, loan release in tranches with built-in performance indicators (all related to progress in housing reconstruction) as conditions for loan release, have been incorporated in the loan design. The focus on housing is also in line with the thrust of ADB's Disaster and Emergency Assistance Policy on mitigating losses of priority assets and livelihood.

Impact and Outcome

The main expected impact of the proposed Program is restoration and improvement of the livelihood for the earthquake-affected people in Azad Jammu and Kashmir (AJK) and Northwest Frontier Province (NWFP). The main expected outcome will be that most affected people will live in seismically compliant houses, ensuring greater future safety and security.

Financing Plan

Total housing reconstruction needs amount to \$1.375 billion, while total external financing, approved and in the pipeline, without ADB is \$816 million. Moving forward, the Government faces significant requirements given the large number of houses damaged. The estimated funding gap in the housing sector without ADB currently stands at \$559 million.

As of 31 March 2007, the cumulative expenditure by the Government for housing reconstruction amounted to \$621.5 million, (including \$247.2 million before the establishment of ERRA and \$374.3 million after). A key point to note is that the Government has already diverted significant resources from its general development priorities to meet the reconstruction requirements. In light of the adverse fiscal performance, the Government has requested ADB to provide a concessional loan equivalent to SDR263,875,000 (equivalent to \$400 million) to finance the housing reconstruction program. In addition, the World Bank and the Islamic Development Bank have tentatively proposed \$130 million and \$127 million, respectively, additional financing for housing reconstruction. If all these sources of external funding materialize, the Government will be able to recoup a portion of the expenditures already incurred. This would imply a net expenditure of \$159 million by the Government for housing reconstruction.

The ADB loan will carry an interest of 1% per year and a maturity of 40 years, including a grace period of 10 years, with repayment of principal at 2% per year during the first 10 years after the grace period and 4% per year thereafter. The Government will bear the foreign exchange risk.

Allocation and Terms

The loan proceeds will flow to the Government's central budget, and the Government will contribute the funds to ERRA through the budget allocation process in a timely manner.

Period of Utilization

1 July 2007–30 June 2008

Estimated Program Completion Date

30 June 2008

Implementation Arrangements

ERRA will pay housing subsidies to the targeted affected people through its two provincial or state branches: (i) the Provincial Earthquake Reconstruction and Rehabilitation Agency (PERRA) for North-West Frontier Province (NWFP), and (ii) State Earthquake Reconstruction and Rehabilitation Agency (SERRA) for Azad Jammu and Kashmir (AJK). All transactions are conducted through bank accounts, with no cash changing hands. PERRA and SERRA provide important checking and verification to ensure that the list of affected people is up-to-date and correct. Feedback indicates that this approach minimizes potential leaks during transactions, and has been effective in getting the funds to the targeted affected people.

Individual households will carry out housing reconstruction based on the standards and designs specified by ERRA. The subsidy schemes are developed based on the market replacement value of a typical house (39 square meters), irrespective of the size of the original houses. For a completely destroyed house, the payments to the households are made in four installments based on benchmarks of construction progress, i.e., PRs25,000, PRs75,000, PRs25,000, and PRs50,000, for a total of PRs175,000 (about \$3,000). For a partially damaged house, the payments are made in two installments, i.e., PRs25,000 and PRs50,000, for a total of PRs75,000. For houses with minor damage, the owners will receive one payment of PRs25,000. The payments are made based on progress reports by field inspectors provided by the Army and nongovernment organizations (NGOs).

Executing Agency

Ministry of Finance

Procurement and Disbursement

The loan will be released in two tranches. The first tranche of \$200 million equivalent, to be released upon loan effectiveness, will provide financing support on a retroactive basis for the significant housing expenditures already incurred by the Government. The second tranche of the loan (i.e., remaining amount in the loan account) is expected to be released within six months of the release of the first tranche, subject to

compliance with a set of performance targets. These performance targets or benchmarks as conditions for releasing the second tranche have been agreed upon between the Government and ADB as follows:

- (i) ERRA has paid the third installment of the housing subsidy to 85% of the eligible households who received the second installment and provided Financial Monitoring Reports (FMRs) and other documents as evidence of the payment;¹
- (ii) unqualified audit opinion on ERRA's financial statements for FY2007 has been submitted to ADB;
- (iii) training facilities have been provided by the Government to enable the commencement of the training program for households under the attached technical assistance (TA);
- (iv) all consultant contract awards for the Legal Assistance, Governance, and Institutional Building component under the EEAP have been made.

For each tranche, the Government will submit a withdrawal application supported by necessary documents. For the first tranche, such withdrawal application will be accompanied by (i) a Financial Monitoring Report (FMR) for the quarter ended 31 March 2007 indicating that the amount of eligible expenditures paid for by the Government during the period from 8 October 2005 to 31 March 2007 is greater than the amount of the requested withdrawal, and (ii) a certificate of the Government confirming that the FMR is correct. For the second tranche, such withdrawal application will be accompanied by (i) the most recent FMR indicating the amount of eligible expenditures paid for by the Government during the period from 1 April 2007 to the end of the quarter to which the FMR relates, (ii) a certificate of the Government confirming that the amount indicated in the FMR plus the projected eligible expenditures for the remaining Program Period exceed the amount of the requested withdrawal; and (iii) documents evidencing that the conditions for the aforementioned second tranche release have been met. The Government Account No.1 at the State Bank of Pakistan (used for the quick disbursing component of the previous EEAP loan) will serve as the deposit account for which all withdrawals from the loan account will be deposited. The deposit account will be managed in accordance with terms and conditions satisfactory to ADB. The Government will transfer an amount equal to the eligible expenditures projected for the remaining Program period to ERRA's account at the National Bank of Pakistan within 60 days of the release of the second tranche. ADB will reserve the right to audit the use of the loan proceeds and verify the accuracy of the Government's certification.

¹ The installments will be as defined under the Implementation Arrangements.

The loan proceeds will be used for financing the housing reconstruction program. This will be implemented through providing compensation or direct payments to individual households who will procure needed materials and reconstruct their own houses.

Program Benefits and Beneficiaries

The beneficiaries of the Program are the 3.5 million earthquake-displaced people. The main socioeconomic impact will be the restoration and improvement of the livelihood of the people. This includes provision of seismically compliant housing for the earthquake-displaced people and students. Most of them still live either in tents or temporary shelters. Restoration of the physical infrastructure will lead to economic recovery of NWFP and AJK, characterized by faster economic growth and more opportunities for the poor and socially vulnerable. The reconstruction of infrastructure also will create many jobs for skilled workers in the construction industry. Due to the increased demand, the region is facing a shortage of such skilled workers. Similarly, reconstruction is having positive effects on the local construction materials industry, moderately increasing the prices of the key construction materials such as cement.

The earthquake has shifted gender roles of women and men in the earthquake-affected areas. Due to the loss of male partners, some of the women's responsibilities have increased as they assume the additional burden of caring for orphaned children and persons with disabilities, while also emerging as heads of households. In NWFP, women head more than 23% of households compared with 31% in AJK. This new reality requires rethinking social conditioning, as well as the type of contributions that members of the household and the community can make. In particular, stakeholders report that women-headed households, widows, and orphaned children (mostly girls) have had little access to supplies and services due to their limited mobility or absence of proper identity documents to support these claims. A Gender and Vulnerability Action Plan has been prepared and will be implemented. It aims to ensure that essential needs, constraints, and priorities voiced by women, and extremely vulnerable individuals and families, are reflected in the design of the Program and monitored during loan implementation.

Risks and Assumptions

The main risks facing the Program include (i) natural risks, such as another earthquake before completion of the reconstruction program; (ii) fiduciary risks, e.g., corruption; and (iii) market risks, e.g., a major escalation in the costs of construction materials due to increased demand. The real possibility of another earthquake in the near future increases the urgency to complete the seismically compliant housing program promptly. The Program will provide expedited and flexible financing to help achieve this. Fiduciary risk has been a main concern for the Government and its development partners, which jointly have put in place strong financial management and reporting mechanisms, as well as monitoring and evaluation support. ERRA has monitored closely the risk of price escalation, and the increases have been acceptable so far. However, further delays in reconstruction could expose the Program to larger price escalations.

The key assumptions underlying the success of the Program and, to an extent, the entire R&R program include:

- (i) the Government and development agencies will allocate adequate resources for reconstruction in all sectors;
- (ii) enough capacities, including skilled labors, are available for housing construction;
- (iii) seismic standards are strictly enforced;
- (iv) alternative sites can be found for houses whose original sites have been destroyed by landslides; and
- (v) most affected households will use the compensation money for housing reconstruction, and they will have enough savings to finance expansion beyond the minimum living area supported by the Government compensation.

Technical Assistance

Building on the ongoing TA on Capacity Building for the Office of the Auditor General² attached to EEAP, a TA entitled Capacity Building for Institutions Related to Earthquake Reconstruction and Rehabilitation will be attached to the Program. The TA is estimated to cost the equivalent of \$2,500,000. ADB will provide \$2,000,000, from the Pakistan Earthquake Fund (PEF) on a grant basis. ERRA will be the Executing Agency. However, the TA project will provide additional support for all the institutions related to the earthquake R&R program in key areas as deemed necessary. This support will include (i) community-based training on seismic standards and construction monitoring techniques; (ii) financial and strategic management; and (iii) environmental and social protection (emphasizing gender and vulnerability aspects of social protection). Special attention will be paid to capacity building at the provincial or state and district levels.

² ADB. 2005. *Technical Assistance to the Islamic Republic of Pakistan for the Capacity Building for the Office of the Auditor General*. Manila (TA 4730-PAK, for \$2,000,000, approved in December).

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Islamic Republic of Pakistan for the Earthquake-Displaced People Livelihood Restoration Program (the Program). The report also describes proposed technical assistance (TA) from the Pakistan Earthquake Fund (PEF) for the Capacity Building of Institutions Related to Earthquake Reconstruction and Rehabilitation, and if the Board approves the proposed loan, I, acting on the authority delegated to me by the Board, will approve the TA. The design and monitoring framework is in Appendix 1.

II. RATIONALE: ANALYSIS, PROBLEMS, AND OPPORTUNITIES

A. The Government's Earthquake Reconstruction and Rehabilitation Program

2. The 8 October 2005 earthquake that hit the northern Pakistan, principally North-West Frontier Province (NWFP) and Azad Jammu and Kashmir (AJK), was the most devastating in the nation's history. Approximately 615,000 houses (about 585,000 rural houses and 30,000 urban houses), 6,472 schools, 570 medical facilities, and 1,500 government buildings were destroyed or damaged. In addition, landslides damaged power supplies and roads. About 3.5 million people lost their homes, and official figures put the death toll at more than 80,000. In a joint preliminary assessment, the Asian Development Bank (ADB) and World Bank estimated the total reconstruction cost at more than \$3.5 billion, although the actual figure could be much higher.

3. Adopting a "Building Back Better" strategy, the Government of Pakistan (the Government) initiated the earthquake reconstruction and rehabilitation (R&R) program. Appendix 2 provides a detailed account of the scope and progress of the R&R program. The aim of the strategy and the program is to rebuild infrastructure to post-earthquake standards, and to develop improved policy and institutional frameworks. The Earthquake Reconstruction and Rehabilitation Authority (ERRA) was established to oversee and monitor the R&R program. It is supported by two regional affiliates: (i) the Provincial Earthquake Reconstruction and Rehabilitation Agency (PERRA) for NWFP, and (ii) the State Earthquake Reconstruction and Rehabilitation Agency (SERRA) for AJK. These, in turn, are supported by district reconstruction units (DRU) at the district level. A separate agency was created to coordinate earthquake reconstruction, because the capacities of the existing government agencies were considered too weak to handle the enormous R&R tasks. Other measures designed to improve the effectiveness and efficiency of the R&R program include (i) strengthening the decision making and implementation capacities in the two affected provinces and/or states, using simplified approval and implementation procedures; (ii) ensuring the R&R program meets appropriate safety, quality, technological, and environmental standards; and (iii) establishing transparent procedures and allowing third-party monitoring.

4. The international community and development partners, including ADB, pledged significant financial assistance for the Government's R&R program. At the Islamabad Donor Conference in November 2005, ADB President Kuroda announced a pledge of \$1 billion. On 14 November 2005, ADB approved its first package of assistance, totaling \$185 million. This included (i) reallocation of \$105 million from loan savings under various ongoing loans, of which \$85 million was disbursed as budgetary support; and (ii) the establishment of PEF, supported by an initial grant of \$80 million from ADB. On 13 December 2005, ADB approved the follow-up

Earthquake Emergency Assistance Project (EEAP),¹ amounting to \$300 million, consisting of a PEF grant of \$80 million and a loan of \$220 million from ADB's Special Funds Resources. These operations raised ADB's contribution for the reconstruction effort to \$405 million.

5. Subsequently, ADB allocated a grant of \$5 million from the Japan Fund for Poverty Reduction, followed by a further reallocation of loan savings equivalent to \$62.5 million from several other ADB-financed projects for the earthquake R&R program. In addition, the Office of Cofinancing and the Pakistan Resident Mission worked together to mobilize approximately \$97 million in grant funding as contributions to PEF and EEAP.

6. The development agencies have coordinated the planning and implementation of their assistance programs to support each other's efforts, minimize transaction costs, and maximize synergy. The World Bank's financial assistance has targeted primarily housing reconstruction, while ADB has supported infrastructure rehabilitation and reconstruction through its EEAP. Funding agencies also made strong efforts to harmonize financial management and reporting procedures. Major multilateral and bilateral development agencies, including World Bank, ADB, and United Kingdom's Department for International Development (DFID), conducted joint assessment and reviews of the financial management and fiduciary oversight capacities, and made recommendations to improve the capacities.

7. The pace of the R&R program has been uneven. Housing reconstruction, which has been financed principally by the Government, World Bank, and some other development partners, has shown the most progress.² A major portion of the funds committed by development agencies for housing reconstruction has been disbursed. The Government has allocated the equivalent of \$630 million for the reconstruction of 585,000 rural houses. More than 96% of households have received second installments of finance. The most important reason for the fast progress in housing reconstruction is the high level of political commitment to meeting the affected people's basic need for shelter. A second reason is the owner-driven and in situ approach. Finally, the housing reconstruction is being financed mostly under quick-disbursing financing facilities, principally provided by the World Bank and some bilateral development agencies. This has minimized transaction costs and reduced delays, which often have been the major hurdles for the prompt implementation of emergency assistance projects.

8. In contrast, progress has been slower in repairing and rehabilitating damage in other sectors under ADB's EEAP, i.e., transport (roads and bridges), power (power generation stations and transmission lines), and social sectors (education and health facilities). While this is due partly to the higher priority given to housing, implementation capacity constraints and bureaucracy on the ground also are to blame. ADB's normal development project financing procedures, which have been applied to the sector components of EEAP, are also more complex. Only about 18% of funds have been disbursed and about 21% of contracts have been awarded. However, with the long initial gestation period over, the establishment of the organizational structure, policies, and guidelines of ERRA is almost complete. Thus, these percentages have started to increase rapidly with the awards of several major contracts in all sectors in recent months, i.e., April and May 2007.

¹ ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Pakistan for the Earthquake Emergency Assistance Project*. Manila (Loan 2213-PAK[SF], approved in December 2005, for \$300 million).

² ADB's EEAP did not cover housing reconstruction.

9. Despite the progress made in housing sector, many affected people continue to suffer from lack of shelter and other basic services. Approximately 30,000 people, or about 1% of the displaced people, have lost their land suitable for housing reconstruction due to earthquake-induced landslides, and are still living in the temporary camps. A large number of people are still mostly living in individually built temporary shelters as permanent houses are being constructed. For the people living in tents and other temporary shelters, life particularly during winter seasons remain extremely difficult and death toll could increase further if the winter temperature drops to certain levels.

B. Lessons Identified

10. ADB's *Disaster and Emergency Assistance Policy* paper (2004)³(Emergency Policy) provides a comprehensive summary of the main lessons identified through (i) self-evaluation by the operational departments, i.e., project or program completion reports; and (ii) independent evaluation conducted by the Operations Evaluation Department (OED). The relevant lessons are summarized as follows.

- (i) Emergency projects should focus on the immediate restoration of functions to provide relief to affected communities, and should avoid components with complicated issues that require long-term preparation.
- (ii) The implementation of emergency projects requires flexible approaches and procedures during preparation and implementation.
- (iii) Imprest account disbursement procedures do not work satisfactorily in some countries, because they fail to facilitate quick disbursement.
- (iv) A participatory and gender-responsive approach is essential for reconstruction activities; consultation and involvement with affected communities are required.
- (v) Greater efforts to strengthen local capacity and involvement of experienced local and international nongovernment organizations (NGO) should be considered to assist overburdened government agencies.
- (vi) The initial implementation stage is typically slow due to inadequate staff, support services, and monitoring mechanisms.
- (vii) A monitoring system should be established at the field level.
- (viii) ADB should consider earlier delegation of projects to its resident missions.

11. Most recently, OED completed evaluations of two emergency loans on flood emergency rehabilitation in Tajikistan and Kyrgyz Republic.⁴ The evaluations identified several relevant lessons, some of which echoed the lessons from earlier evaluations (para.10). These include (i) guarding against the tendency to use emergency loans for regular development projects or for project maintenance; (ii) ensuring adequate on-site supervision; (iii) striking a balance between the emergency nature of the project and the long-term sustainability of the facilities built; (iv) enabling emergency assistance to focus on immediate needs of the population; and (v) considering, at country strategy and program level, a special strategy and program to address the recurrent natural disaster preparation and management in the country, including delegation to resident missions as necessary.

³ ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila.

⁴ ADB. 2006. *Performance Evaluation Report. Flood Emergency Rehabilitation Project (Loan 1633-KGZ[SF]) in the Kyrgyz Republic*. Manila (PPE, KGZ 32415, December); ADB. 2006. *Performance Evaluation Report. Flood Emergency Rehabilitation Project (Loan 1714-TAJ[SF]) in the Republic of Tajikistan*. Manila (PPE, TAJ 33483, December).

12. In addition to lessons from ADB's experience in disaster relief and management, the formulation and design of the Program also benefits from the worldwide experience in this area, as well as from ADB's EEAP and World Bank's assistance in the housing sector.

13. A review of relevant documents and literature provides some useful insight into Japan's experience with the Kobe earthquake reconstruction. Evidence suggests that housing reconstruction was not a top priority in the city's earthquake construction program. Greater participation by the affected people in the planning and implementation of housing reconstruction also could have improved its effectiveness and reduced their prolonged suffering. The experience from Indonesia's tsunami reconstruction program suggests that, while better holistic planning of its collective housing reconstruction program has minimized potential damage from future earthquakes, progress has been painstakingly slow due to the bureaucratic and other impediments inherent in such an approach. In contrast, the owner-driven and in situ approach followed in the reconstruction of rural houses in the Pakistan earthquake reconstruction program minimizes such delays. Seismic zoning and strict enforcement of seismic building standards can mitigate the risks of being prone to damage by future earthquakes.

14. Lessons from ADB's EEAP show that earthquake situations are dynamic, requiring adjustments, flexibility, and adaptive decision making. To respond effectively to such emergency challenges, ADB has to move from "business as usual" to a "flexible and efficient response" mode that focuses on procedural and technical guidance and advice (as with EEAP), as well as offers special flexible procedures, delegation, dedicated legal and procurement support from ADB, and an efficient system of processing and response. Furthermore, in an emergency environment with multiple funding agencies providing support on a wide range of needs, "ring fencing" the portfolios of individual funding agencies with special procedures and requirements is extremely difficult. The focus should be on strengthening the overall system, including financial, environmental, and social safeguards and operational procedures, to manage for overall results, rather than the individual portfolios.

15. A related point is that that ADB's regular project procurement procedures based on statements of expenditures might not be well suited for housing reconstruction, which involves payments in tranches to a large number of homeowners within a short period of time. With its Earthquake Emergency Recovery Credit, the World Bank adopted a quick-disbursing approach for its financing of housing reconstruction based on Financial Monitoring Reports (FMRs) and semiannual future fund requirement forecasts. World Bank recently modified its procedures for rapid emergency responses to make them more flexible in all phases of emergency response projects, including processing, approval, and procurement.

C. Need for Additional Support on a Quick-Disbursing Basis and Choice of Modality

16. The proposed Program is an integral part of ADB's overall commitment of up to \$1 billion, made in the aftermath of the earthquake, to meet the massive reconstruction needs. In January 2006, the Government made its first request to ADB for providing a second loan to support its ongoing earthquake R&R program. In August 2006, due to financing constraints, the Government reiterated its request which further stressed the need to materialize ADB's commitment. During the Fact-Finding Mission, the Government expressed its wish that the second loan should have the same financial terms as the first EEAP (i.e., the terms for Emergency Assistance Loan [EAL] including 1% interest rate, 40 years maturity and 10-year grace period).

17. The Ministry of Finance (MOF) has cumulatively allocated Rs.88.05 billion (approximately \$1.45 billion) for earthquake R&R. Apart from the concessional loans and grants from various development agencies, most of the funds come from Government's regular sources of revenue and market borrowings. This has caused a substantial strain on the Government's budget which has adverse implications for the country's regular development programs. Pakistan achieved a significant measure of fiscal discipline during 2000-2004, when the fiscal deficit declined to 3.9% of GDP from levels above 6% earlier. However, as a result of the unanticipated reconstruction needs, the fiscal deficit widened to 4.2% of GDP Fiscal Year 2006. It is expected to rise further to 4.5% of GDP for Fiscal Year 2007.

18. Appendix 2 provides detailed estimates of the funding requirements and gaps in the housing and education sectors. Of the overall needs, housing reconstruction is the most urgent in terms of minimizing the prolonged suffering of affected people and it is also an essential prerequisite for full economic recovery. There is an estimated funding gap in the range of \$630 million to \$820 million in the housing sector without any additional financing from external funding agencies. The education sector also has a large funding gap currently estimated at \$646 million. In comparison, the health sector is well funded and supported by ADB, various development agencies, and NGOs. The power sector is also well funded with ADB's EEAP. Road reconstruction is supported by ADB (with EEAP), the World Bank, and several bilateral agencies.

19. ADB has opted to work with existing institutions, rather than working outside the "system". Although this approach might appear to be slow at times, the long-term impact of building institutional capacities will be significant. One area that might need additional capacity building support is training on seismically compliant building standards and techniques. The adoption of the owner-driven, in situ approach requires many inspectors and trainers on the ground. About 25,000 master trainers have received training, and they have trained more than 200,000 affected house owners. The Army and NGOs have provided the bulk of the personnel on the ground. However, this task has distracted the Army from its regular duties. Civil organizations should gradually take over the role that the Army is playing in inspection and training. The funding for the NGOs is also nearly depleted.

20. ADB's different lending modalities were compared carefully to determine the best way to meet the urgent needs of housing reconstruction amidst strong competition for resources. The EAL was selected as the most appropriate modality to help the Government maintain its overall national development program, while it continues to respond to the urgent requirements of earthquake reconstruction. This choice was based also on two characteristics of the housing reconstruction program: (i) the tight time frame (i.e., the program is expected to be completed by May 2008); and (ii) the owner-driven implementation approach, which requires providing money to many individual households that will procure needed materials and build their own houses based on the seismically compliant housing designs provided by ERRRA. ADB's project financing or sector financing would not be able to meet this need in a timely and effective manner. Hence, the Program combines the EAL modality with some useful features of the programmatic financing approach, particularly the use of tranches with built-in performance indicators (mostly related to progress in housing reconstruction) as conditions for loan release. As the utilization and disbursements of the proposed loan are closely tied to the earthquake R&R expenditures incurred by the Government, the programmatic approach is fully justified.

21. The use of EAL to support housing reconstruction is consistent with the Emergency Policy. The Emergency Policy stresses that EALs are designed to mitigate immediate losses to priority assets, capacity, or productivity rather than to provide relief or comprehensive

reconstruction; and that EALs will be restricted to the transition phase and used exclusively for priority rehabilitation. The proposed loan will concentrate on mitigating the losses of dwellings for victims who are still in temporary shelters after losing their land and material possessions. Dwellings are priority assets that are essential for the regeneration of livelihoods and productivity. For the 30,000 people who have been living in tents for almost 2 years, as well as 3.5 million more still living in temporary or semi-permanent shelters, the past two winters have been extremely harsh and difficult. Another earthquake is possible. In light of these risks, the Government is determined to complete housing reconstruction by May 2008. Thus, the winter of 2007 will be the last one for most displaced people before they move into new seismically compliant houses. Experience elsewhere in the world suggests that housing in particular is a prerequisite for livelihood regeneration and subsequently economic recovery. Without addressing the shelter issue first, reconstruction and rehabilitation efforts would be ineffective.

22. The proposed Program is processed within two years of the earthquake. It supports the Government's housing reconstruction program which is scheduled to be completed in May 2008, less than three years after the earthquake. Considering the extreme destruction and dislocation caused by the earthquake, these time frames are considered appropriate.

23. **Special Circumstances:** The Emergency Policy requires that (i) an EAL be processed in an expeditious manner (within 12 weeks), (ii) up to 30% of the loan be provided in the form of retroactive financing, and (iii) the quick-disbursing components finance a list of imports. The proposed Program has been processed under somewhat special circumstances in relation to the standard requirements of the policy:

- (i) **Processing Timetable:** Counting strictly from the time the Government officially requested ADB to provide additional assistance (para.16), the 12-week time frame set out in the policy has clearly been exceeded under the proposed Program. However, the Program is an integral part of ADB's overall commitment to provide up to \$1 billion of assistance made in the aftermath of the earthquake. In the interim, during the course of 2005-2006, ADB has provided assistance through investment and TA operations (paras.4 & 5). In particular, ADB's efforts over this period and early 2007 have focused primarily on implementing the EEAP and exploring concessional funding sources to meet the overall commitment to, and the requirements of, the Government. Further, ADB has also worked closely with other development partners in strengthening the fiduciary management capacity of ERRA, to ensure that the large external support reaches the intended beneficiaries. As a result, the FMR has become a reliable instrument to assess past reconstruction progress as well as determine ERRA's forward-looking needs with certainty. Thus, ADB's continuous engagement throughout this period provides adequate justification for processing the proposed Program beyond the timeframe stipulated in the policy.
- (ii) **Retroactive Financing:** Given the significant reconstruction needs, the Government has been proactive in allocating scarce budgetary resources to ERRA since October 2005. As of 31 March 2007, the Government has already spent \$621.5 million of its own resources (para.35). As noted in para.17, the reconstruction needs have strained the fiscal position of the Government. For these reasons, it is considered appropriate that more than 30% of the loan proceeds be applied toward retroactive financing of the housing expenditures.

- (iii) **Financing Imports:** The Emergency Policy allows for quick-disbursing assistance to finance imports necessary for effective recovery. The proposed Program will provide quick disbursing assistance for housing reconstruction. As most of the basic construction materials and services (cement, bricks, and labor, among others) will be sourced locally, and not through imports, the EAL requirement that imports be financed is not applicable in the current context.

III. THE PROPOSED PROGRAM

A. Impact and Outcome

24. The main expected impact of the proposed EAL is restoration and improvement of the livelihood for the earthquake-affected people. The main expected outcome will be that most earthquake-displaced people will live in seismically compliant houses at the end of the Program.

B. Outputs

25. In the housing sector, the construction of rural houses must follow the designs and specifications provided by ERRA. The owners of the houses will receive subsidies from ERRA, in a maximum of four installments, based on physical progress benchmarks. The main outputs of the Program will be the completed rural houses that comply with ERRA seismic standards. The earthquake destroyed or damaged 585,000 rural houses, which need to be repaired or rebuilt. ADB loan funds will be used mostly for financing up to four installments of payments to the household in the housing reconstruction program undertaken by ERRA.

26. A second category of program outputs covers the capacities built at ERRA to support the earthquake R&R program. These capacities include seismic training, financial and strategic management, and environmental and social protection (particularly protection of women and vulnerable people). ERRA has trained more than 200,000 households in seismic training, and the Program will aim to train at least 50,000 additional households on seismic building designs and techniques (Section IV).

C. Special Features

1. EAL on a Programmatic Basis

27. The Emergency Policy expressly contemplates the inclusion of quick-disbursing components in EALs to finance imports considered necessary for effective recovery, but also emphasizes that such quick-disbursing components are not program loans. These quick-disbursing components are critical if the key features of the housing reconstruction program—tight time frame and owner-driven implementation approach—are to be delivered in a timely and effective manner. Also, the conditions for the release of funds from such quick-disbursing components are closely tied to progress in housing reconstruction, not policy reforms as would be the case for program loans. The factors outlined in paras.20-21 provide adequate justification for channeling the entire assistance on a programmatic and quick-disbursing basis.

2. Harmonization with the Government's Reconstruction Program and Support from Other Development Partners

28. As the Program is to finance the Government's ongoing earthquake R&R program, the programmatic financing approach is particularly useful (Appendix 2). On the one hand, due to the dynamic situation on the ground, the information on the costs of housing reconstruction is crude and constantly being revised. On the other hand, with the strong support from the development partners and after a long gestation period, the institutional and policy framework for executing the Government's R&R program has been established and is functional. The programmatic financing approach, with built-in performance indicators, will provide the flexibility and monitoring mechanisms needed for executing such a major and complex undertaking.

29. The performance indicators as conditions for releasing the second tranche have been jointly determined with the Government after extensive consultations. These indicators are related mostly to progress in housing reconstruction, as well as in the area of legal assistance to the affected people and the auditing results of the use of the previous loan funds (Procurement and Disbursement, Section F).

3. Strong Oversight Mechanisms to Manage Fiduciary Risks

30. Emergency assistance must be supported by sound financial management and operational procedures, as well as monitoring and evaluation (M&E) mechanisms. As part of EEAP, ADB has worked closely with the Government and other development partners, including World Bank and DFID, in designing such mechanisms. Appendix 3 provides a detailed account of the financial management mechanisms, including accounting, auditing, and reporting arrangements, for the earthquake R&R program.

31. ERRA has a proven record in administering the earthquake R&R program, particularly in housing reconstruction. ADB's EEAP is providing assistance to strengthen the capacities of the Auditor General of Pakistan (AGP) and the Controller General of Accounts (CGA). In addition, the ADB, DFID, World Bank, and other development agencies have harmonized their required accounting and auditing procedures. As requested by World Bank, ERRA has recruited a strong team of accountants and internal auditors. ADB has helped finance the engagement of two chartered accountants based in Islamabad and Peshawar, and is recruiting a third one to be based in AJK. AGP has conducted an audit of ERRA's account for FY2006. The auditing results, which the development partners have accepted as valid third-party monitoring, are generally satisfactory. Most of the measures recommended by the audit report for continuous improvements have been implemented to the satisfaction of the development partners.

32. Under EEAP, ADB also has played an important role in providing and coordinating the assistance by development partners in M&E, including using third-party validations (Appendix 2). ADB's assistance will be strengthened as housing reconstruction nears completion or is completed. More resources will be allocated through the attached TA project for additional support in some specific areas (Section IV).

4. Strong Environmental and Social Safeguards

33. R&R work could produce adverse environmental and social impacts. For example, the reconstruction of houses might lead to timber logging and deforestation. As landslides have destroyed the sites for some of the houses, new sites would have to be found. ERRA has put together a strong environmental and social safeguards team, and has developed its

environmental and social strategies and actions plans. Supported by a safeguards expert funded by the Australian Agency for International Development (AusAID), ADB is conducting a training program under EEAP for the safeguards specialists on national and ADB environmental and social safeguards policies and procedures. Under the Program, the attached TA project will provide additional assistance in social safeguards, as well as in integrating ADB's environmental, resettlement, and indigenous people's policies and procedures with the Government's regulations and procedures. These will supplement assistance from the United Nations Development Programme (UNDP), which has allowed PERRA, SERRA, and DRUs to engage a team of 20 safeguards specialists.

D. Cost Estimates and Financing Plan

34. Table 1 provides the total housing sector needs and sources of funds. Total housing reconstruction needs amount to \$1.375 billion, while total external financing without ADB, approved and planned, is \$816 million. Moving forward, the Government faces significant requirements given the large number of houses damaged. The estimated funding gap in the housing sector currently stands at \$559 million without ADB financing.

Table 1: Housing Sector Expenditure Needs and Sources of Funds
(\$ million)

Source	Approved Amount	Amounts in Pipeline	Total
A. Total Housing Sector Reconstruction Needs^a			1,375.0
B. External Financing (without ADB)	559.0	257.0	816.0
a. World Bank	408.0	130.0	538.0
b. Islamic Development Bank	76.0	127.0	203.0
c. Bilateral and Other Agencies	75.0	0.0	75.0
C. Financing Gap (A-B)			559.0
D. Support Requested from ADB		400.0	400.0
E. Government's Contribution			
1. Upfront Government Financing ^b (Disbursements up to March) ^c	374.3		374.3
2. Net Government Financing (C-D)			159.0

^a Figure taken from the high-case scenario estimates provided in Appendix 2.

^b This figure does not include Government's payment of Rs.15 billion (approximately \$247.2 million) as the first installment of the housing subsidy before the establishment of Earthquake Reconstruction and Rehabilitation Authority.

^c The Government has requested that a portion of this be covered through retroactive financing support under the proposed Program.

Sources: Earthquake Reconstruction and Rehabilitation Authority and Asian Development Bank estimates.

35. According to the FMRs provided by ERRA, as of 31 March 2007, the cumulative expenditure by the Government for housing reconstruction amounted to \$621.5 million, (including \$247.2 million before the establishment of ERRA and \$374.3 million after). A key point to note is that the Government has already diverted significant resources from its general development priorities to meet the reconstruction requirements. In light of the adverse fiscal performance as noted in para.17 above, the Government has requested ADB to provide a

concessional loan from ADB's Special Fund resources in the equivalent of \$400 million to finance the ongoing housing reconstruction program. At the same time, the Government is in contact with a number of other development agencies for possible financing. So far the World Bank and the Islamic Development Bank have tentatively proposed \$130 million and \$127 million additional financing for housing reconstruction (Table 1). If all these sources of external funding materialize, the Government will be able to recoup a portion of the expenditures already incurred. This would imply a net expenditure of \$159 million by the Government for housing reconstruction.

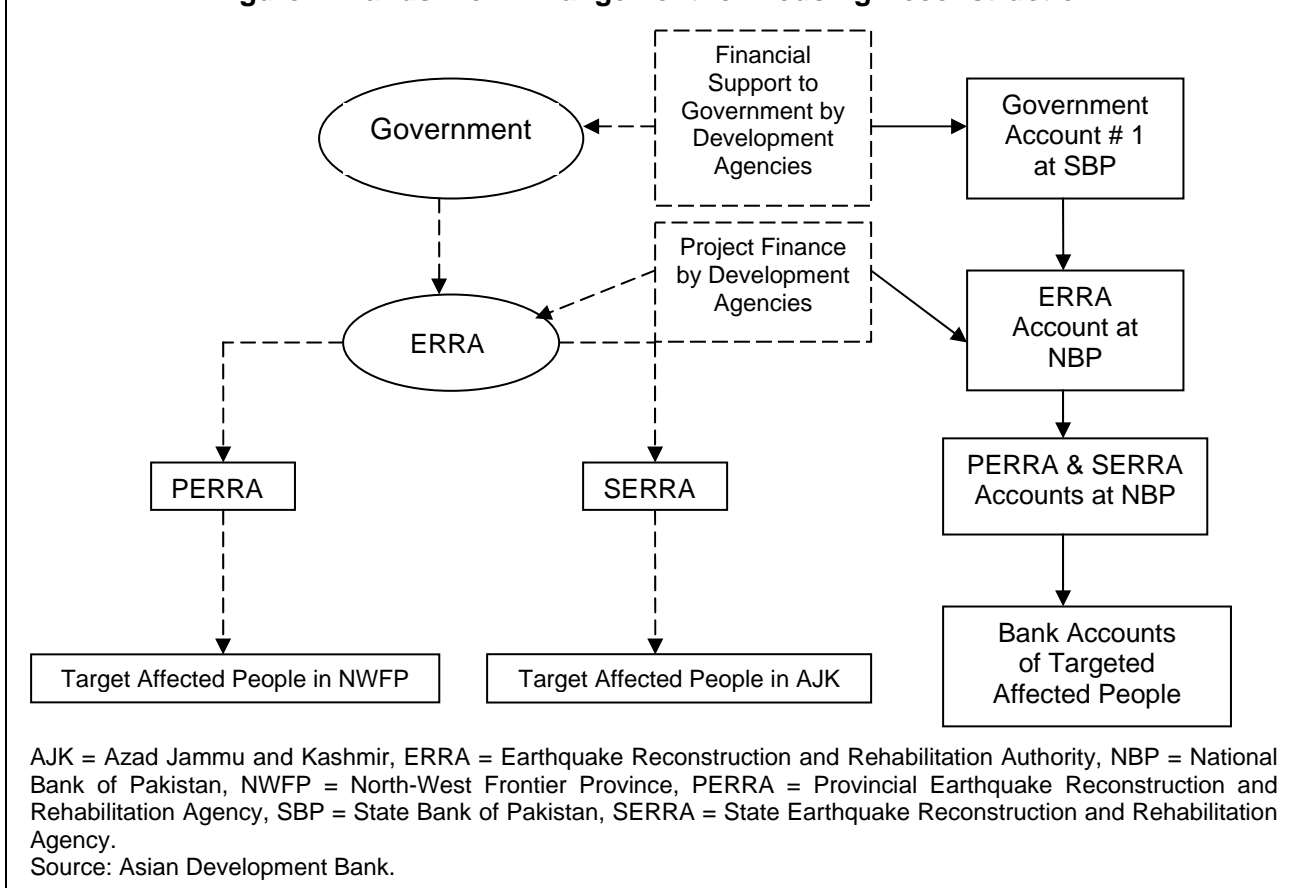
36. The ADB loan will carry an interest of 1% per year and a maturity of 40 years, including a grace period of 10 years, with repayment of principal at 2% per year during the first 10 years after the grace period and 4% per year thereafter. The Government will bear the foreign exchange risk.

E. Implementation Arrangements

1. Program Management and Coordination

37. MOF will be the Executing Agency. The loan will flow to the budget of the Government, which will contribute funds to ERRA's account through the budget allocation process. Figure 1 provides a schematic illustration on the flow of housing reconstruction funds. The solid arrows indicate funds flow, while the dashed arrows indicate information exchange or policy and procedural guidance. ERRA receives funding from two sources: the Government budget allocation, and direct project financing from development agencies (e.g., ADB's EEAP). ERRA, in turn, provides payments through PERRA and SERRA to the targeted affected people. This arrangement has two important characteristics. First, all transactions are conducted through bank accounts, with no cash changing hands. Second, PERRA and SERRA provide important checking and verification to ensure that the list of affected people is up-to-date and correct. Feedback suggests that this approach minimizes potential leaks during transaction, and has been effective in getting the funds to the targeted affected people.

Figure 1: Funds Flow Arrangement for Housing Reconstruction



38. Individual households carry out housing reconstruction based on the standards and designs specified by ERRA. The subsidy schemes are developed based on the market replacement value of a typical house size (39 square meters), irrespective of the actual size of the original house. For a completely destroyed house, the payments to the households are made in four installments based on benchmarks of construction progress, i.e., PRs25,000, PRs75,000, PRs25,000, and PRs50,000, for a total of PRs175,000 (about \$3,000). For a partially damaged house, the payments are made in two installments, i.e., PRs25,000 and PRs50,000, for a total of PRs75,000. For houses with minor damage, the owners will receive one payment of PRs25,000. The payments are made based on progress reports by field inspectors provided by the Army and NGOs.

2. Implementation Period

39. The forward looking implementation period for the Program is 12 months upon loan effectiveness. Housing reconstruction will be completed by 30 June 2008. The retroactive financing support proposed will cover part of the past housing reconstruction expenses incurred by the Government.

3. Procurement and Disbursement

40. The loan will be released in two tranches on a quick-disbursing basis. It is proposed that a first tranche of \$200 million equivalent be provided for retroactive financing of housing reconstruction expenditures incurred and paid for by the Government after the earthquake (8 October 2005). In disbursement terms, the Government's own spending thus far accounts for 64% of the \$584.2 million disbursed through end-March 2007 by ERRA. The proceeds from the first tranche would enable the Government to provide the cash for the payment of the third housing installment or reimbursement of Government's payments of housing subsidies under the R&R program. The second tranche of the loan (i.e., the remaining proceeds in the loan account) is expected to be released within six months of the release of the first tranche, subject to compliance with a set of performance targets. These performance targets or benchmarks as conditions for releasing the second tranche, as established and agreed upon between the Government and ADB after extensive consultations, are as follows:

- (i) ERRA has paid the third installment of the housing subsidy to 85% of the eligible households⁵ and provided the related FMRs and other documents as evidence of the payment;
- (ii) an unqualified audit opinion on ERRA's financial statements for FY2007 has been submitted to ADB;
- (iii) the Government has provided training facilities to enable the start of the training program for households under the attached TA project; and
- (iv) consultants have been awarded the contract for the legal assistance, governance, and institutional building component under the EEAP.

41. For each tranche, the Government will submit a withdrawal application supported by necessary documents. For the first tranche, such withdrawal application will be accompanied by (i) a Financial Monitoring Report (FMR) for the quarter ended 31 March 2007 indicating that the amount of eligible expenditures paid for by the Government during the period from 8 October 2005 to 31 March 2007 is greater than the amount of the requested withdrawal, and (ii) a certificate of the Government confirming that the FMR is correct. For the second tranche, such withdrawal application will be accompanied by (i) the most recent FMR indicating the amount of eligible expenditures paid for by the Government during the period from 1 April 2007 to the end of the quarter to which the FMR relates, (ii) a certificate of the Government confirming that the amount referred to in the FMR plus the projected eligible expenditures for the remaining period exceed the amount of the requested withdrawal; and (iii) documents evidencing that the conditions for the aforementioned second tranche release have been met. The Government Account No.1 at the State Bank of Pakistan (used for the quick disbursing component of the previous EEAP loan) will serve as the deposit account for which all withdrawals from the loan account will be deposited. The deposit account will be managed in accordance with terms and conditions satisfactory to ADB. The Government will transfer an amount equal to the eligible expenditures projected for the remaining Program period and received as part of the second tranche to ERRA's account at the National Bank of Pakistan within 60 days of the release of the second tranche. ADB will reserve the right to audit the use of the loan proceeds and verify the accuracy of the Government's certification.

42. If ADB determines at any time that any portion of the second tranche remains unutilized by the end of the Program, or any payment out of the loan proceeds was made for any ineligible expenditure, or was not justified by the evidence furnished to ADB, the Government will, promptly

⁵ Households whose houses were completely destroyed by the earthquake and who have received the second installment and are entitled to the third and fourth installments.

upon notice from ADB, provide such additional evidence as ADB may request, or refund to ADB the unutilized amount of the Loan proceeds and the amounts of such ineligible payments. The unutilized amounts will be credited to the Loan Account for cancellation.

43. The loan proceeds will be used for financing the housing reconstruction program. This will be implemented through providing subsidy or direct payments to individual households who will procure needed materials and reconstruct their own houses.

4. Anticorruption Policy

44. ADB's *Anticorruption Policy* (1998, as amended to date) was explained to and discussed with the Government. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Program. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* are included in the loan regulations and the bidding documents for Program. In particular, all contracts financed by ADB in connection with the Program shall include provisions specifying the right of ADB to audit and examine the records and accounts of the Executing Agency and all contractors, suppliers, consultants, and other service providers as they relate to the Program. ERRA will publicly disclose on its Web site the program-related information, including information on the release of funds to the intended beneficiaries, applicable procedures, financial statements, procurement contract awards, subproject selection criteria, funding commitment by development partners, basic details on bidding procedures adopted, amount of contract awarded, land acquisition, relocation, and compensation program under the resettlement plans, the list of goods and/or services purchased, and their intended and actual utilization.,.

45. As described in para.46, the strong financial management system, accounting and auditing procedures, and M&E mechanisms put in place under the earthquake R&R program will be maintained. Under the financial management system, all transactions for the Program are made through bank accounts (Figure 1), with no cash changing hands. Feedback suggests that, while this system might not root out corruption completely, it has minimized potential leaks in the system and proved effective in getting the payments to the targeted households.

5. Accounting, Auditing, and Reporting

46. With the support provided by development partners, strong accounting, auditing, and reporting procedures have been established for the earthquake R&R program (Appendix 3). Quarterly FMRs are being prepared on the use of funds by source, i.e., Government budget release, World Bank, ADB, and other development agencies. The FMRs, which have been well received by the development partners, form a primary basis for the World Bank to release its funds for housing reconstruction. In addition, AGP conducts annual audits for the earthquake R&R program with ADB support through EEAP. The development partners have accepted these as valid third-party audits. The first audit report for FY2006 shows that the results are generally satisfactory. It also made some recommendations for continued improvement, which have been implemented to the satisfaction of the development partners.

6. Program Performance Monitoring and Evaluation

47. With significant support from the development partners, ERRA has established a comprehensive program performance monitoring system, namely, the Earthquake Monitoring and Evaluation Framework (EMEF), which comprises 27 full-time staff stationed at federal,

province/state, and district level. The Program performance will be monitored through the EMEF. ERRRA will regularly examine and update EMEF in accordance with ADB's guidelines for preparing a design and monitoring framework,⁶ ERRRA will, within 6 months of the loan effectiveness, recruit an independent firm to carry out monitoring and data collection and another independent firm to conduct annual evaluation of the Program

48. ERRRA will provide progress reports to ADB on a quarterly basis, i.e., on or before 30 September, 31 December, 31 March, and 30 June throughout the Program period. The progress report will include, among others, number of eligible households who have received the third and fourth payments, number of houses completed are compliant with ERRRA seismic designs and standards, number of landless eligible households who have received the subsidies for land acquisition, implementation of Gender and Vulnerability Action Plan (GVAP), and problems encountered during implementation and actions taken to address the problems.

IV. TECHNICAL ASSISTANCE

49. Building on the ongoing TA⁷ attached to EEAP, a TA entitled Capacity Building for Institutions Related to Earthquake Reconstruction and Rehabilitation will be attached to the Program. The TA project is estimated to cost the equivalent of \$2,500,000. ADB will provide \$2,000,000, from PEF on a grant basis. ERRRA will be the Executing Agency. However, the TA will provide additional support for all the institutions related to the earthquake R&R program in key areas as deemed necessary. The support will include (i) community-based training on seismic standards and construction monitoring techniques; (ii) financial and strategic management; and (iii) environmental and social protection (emphasizing gender and vulnerability aspects of social protection). Special attention will be paid to capacity building at the provincial or state and district levels.

50. The outline terms of reference for consultants are in Appendix 4, and a separate procurement plan has been prepared as a supplementary appendix (available upon request). The proposed TA is to be implemented over 36 months from July 2007 to July 2010. Consulting services will include 6 person-months international consultants⁸ and 325 person-months of national consultants. Consultants will be recruited in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time-to-time). All equipment will be procured following the ADB's *Procurement Guidelines* (2007, as amended from time-to-time). The TA will be used mostly to support the ongoing training and the environmental and social protection program, which has been conducted by a number of civil organizations, including National Rural Support Programme and Sarhad Rural Support Programme. As such, single-source selection of the consultants is proposed to ensure the continuity of the training, as well as the environmental and social protection programs; and to take advantage of their experience in these activities. Single-source selection also will be conducive for the timely execution of the TA project to support the housing reconstruction program, which is expected to be completed by May 2008. Administration of the TA will be delegated to Pakistan Resident Mission.

⁶ ADB. 2006. *Project Performance Management System. Guidelines for Preparing a Design and Monitoring Framework*. Manila.

⁷ ADB. 2005. *Technical Assistance to the Islamic Republic of Pakistan for the Capacity Building for the Office of the Auditor General*. Manila (TA 4730-PAK, for \$2,000,000, approved in December).

⁸ ERRRA and ADB may decide to convert the international consulting services into domestic consulting services based on actual needs but such conversion should be budget-neutral.

V. PROGRAM BENEFITS, IMPACTS, ASSUMPTIONS, AND RISKS

A. Socioeconomic Impacts and Protection of Vulnerable Groups

51. The main socioeconomic impact will be the restoration and improvement of the livelihood of the people. This includes provision of seismically compliant housing for the earthquake-displaced people and students. Most of them still live either in tents or temporary shelters. Restoration of the physical infrastructure will lead to economic recovery of NWFP and AJK, characterized by faster economic growth and more opportunities for the poor and socially vulnerable. The reconstruction of infrastructure also will create many jobs for skilled workers in the construction industry. Due to the increased demand, the region is facing a shortage of such skilled workers. Similarly, reconstruction is having positive effects on the local construction materials industry, moderately increasing the prices of the key construction materials such as cement.

52. The earthquake has shifted gender roles of women and men in the earthquake-affected areas. Due to the loss of male partners, some of the women's responsibilities have increased as they assume the additional burden of caring for orphaned children and persons with disabilities, while also emerging as heads of households. In NWFP, women head more than 23% of households compared with 31% in AJK. This new reality requires rethinking social conditioning, as well as the type of contributions that members of the household and the community can make. In particular, stakeholders report that women-headed households, widows, and orphaned children (mostly girls) have had little access to supplies and services due to their limited mobility or absence of proper identity documents to support these claims. A GVAP has been prepared and will be implemented. It aims to ensure that essential needs, constraints, and priorities voiced by women, and extremely vulnerable individuals and families, are reflected in the design of the Program and monitored during loan implementation.

53. ERRA and the reconstruction agencies at the provincial and district levels, supported by the ADB, UNDP, and United Nations Human Resettlements Programme have tried to provide special assistance to vulnerable groups, including cash assistance and a livelihood restoration program. A comprehensive Social Protection Strategy has been developed with assistance from development agencies and NGOs. The strategy aims to ensure vulnerable groups are provided with basic social services, livelihood assistance, and support for rehabilitation, primarily within their own families and communities. It also strives to establish links with the mainstream social welfare structures and services. ADB's earthquake team will continue to work with ERRA, particularly its social and environmental safeguards team, and other development partners in identifying and addressing the needs of vulnerable groups. ERRA is discussing with ADB financing for the activities of identifying and addressing the needs of the vulnerable groups from resources available from EEAP. Additional resources will be available from the attached TA project for meeting the needs of vulnerable groups (Section IV and Appendix 4).

B. Safeguards Issues

1. Environment

54. The Program is classified as environmental category B⁹ in accordance with ADB's *Environment Policy* (2002). An environmental assessment and review framework (EARF) was provided under EEAP for the infrastructure sectors covered by the Program, including the education sector. As the Program will target primarily rural housing reconstruction, Appendix 7 provides an initial environmental examination (IEE) for housing reconstruction.

55. The environmental damage caused by the earthquake, particularly on natural resources such as forests, water bodies, and natural habitats, was severe. The environmental impacts of reconstruction activities, particularly the housing reconstruction supported by the Program, are expected to be moderate. In housing reconstruction, the environmental impacts will be associated primarily with improper site selection (in landslide-prone areas); excessive use of timber for house reconstruction; and improper design of drainage and hygienic systems of houses, causing waste discharge into water bodies. As described in the IEE, ERRA is enforcing a strict zoning code for housing reconstruction. Construction of houses in the "red" zone is prohibited. Furthermore, environmental monitoring conducted by ERRA indicates that most house owners recycled timber materials from their damaged houses, and tree cutting for house building was minimal. Continuous environmental monitoring and implementation of necessary mitigation measures by ERRA, as outlined in the Environmental Monitoring and Management Plan in the IEE, will be essential to minimizing the potential adverse impact.

56. Environmental monitoring and management requires a comprehensive strategy and institutional capacities. With coordinated assistance from its development partners, ERRA has developed such a comprehensive environmental strategy. The main objective of the strategy is to address the damage to the environment caused by the earthquake, and to mainstream environmental concerns in all sectors of R&R activity. In addition, as assisted by ADB and other development partners (in conjunction with AusAID and UNDP), a strong team of environment specialists has been recruited and trained on national and ADB environmental management policies, procedures, and environmental assessment and monitoring techniques. The attached TA project will provide additional support, if needed, for conducting environmental safeguards review and reporting (Section IV and Appendix 4).

2. Land Acquisition

57. In the housing sector, approximately 1% of damaged rural houses (i.e., about 6,000 houses) require new sites for reconstruction, as landslides have destroyed the original sites. However, these 6,000 households, or 30,000 people, are considered "internally displaced people" whose displacement was caused by the natural disaster rather than ADB's operations. In this case, the Program will aim to build seismically compliant and (in many cases) better houses for these people. The Government will provide PRs75,000 for each displaced household to purchase land for the new houses at the market, although the Government will not be directly involved in the transactions (i.e., no involuntary land acquisition). ADB's policy on *Involuntary Resettlement* (1995) will not apply in this case. However, as ADB's funding may be used for land purchases, it is necessary to ensure that such land purchases comply with ADB and the

⁹ There are four environmental categories, i.e., A, B, C, and FI, in accordance with the level of adverse environmental impact. A project will be categorized as B if it is likely to have adverse environmental impact, but of lesser degree than those for category A projects.

Government environmental, social, and governance guidelines and the *Guidelines for Land Acquisition by Private Households* as agreed by ADB and the Government (Appendix 8). ADB will continue to provide special assistance, including temporary shelters for these people.¹⁰

3. Indigenous Peoples

58. In NWFP, a few earthquake-affected communities are tribal. The Program is likely to benefit the tribal communities through the construction of seismically compliant houses.

C. Risks, Mitigation Measures, and Assumptions

59. The main risks facing the Program include (i) natural risks, such as another earthquake before completion of the reconstruction program; (ii) fiduciary risks, e.g., corruption; and (iii) market risks, e.g., a major escalation in the costs of construction materials due to increased demand. The real possibility of another earthquake in the near future increases the urgency to complete the seismically compliant housing building program promptly. The Program will provide expedited and flexible financing to help achieve this. Fiduciary risk has been a main concern for the Government and its development partners, which jointly have put in place strong financial management and reporting mechanisms, as well as M&E capacities. ERRA has monitored closely the risk of price escalation, and the increases have been acceptable so far. However, further delays in reconstruction could expose the Program to larger price escalations.

60. The key assumptions underlying the success of the Program and, to an extent, the entire R&R program include (i) the Government and development agencies will allocate adequate resources for reconstruction in all sectors; (ii) seismic standards are strictly enforced, (iii) alternative sites can be found for houses whose original sites have been destroyed by landslides; and (iv) most affected households will use the compensation money for housing reconstruction, and they will have enough savings to finance expansion beyond the minimum living area supported by the Government compensation.

VI. ASSURANCES

A. Specific Assurances

61. In addition to the standard assurances, the Government has given the following assurances, which are incorporated in the legal documents:

- (i) **Counterpart Obligations.** The Government will ensure that all necessary funds, facilities, services, and other resources in addition to the ADB loan are allocated and released in a timely manner to ERRA, and the line departments in AJK and NWFP throughout the entire Program.
- (ii) **Housing Reconstruction.** The Government will ensure that environmental monitoring and management plan set out in the IEE is fully implemented to meet the seismic designs and safety standards in rural housing reconstruction, and the

¹⁰ A Resettlement Framework was prepared under ADB's earlier EEAP for the infrastructure sectors included. However, due to the slow progress in implementation, no resettlement plan has been prepared. To prepare for the expected acceleration of implementation, ADB is currently conducting training for the implementing agencies on ADB's environment and social protection policies and procedures.

Guidelines for Land Acquisition by Private Households are fully implemented during the Program.

- (iii) **Gender and Vulnerable People.** The Government will ensure that ERRA adopts the GVAP developed for the Program and implements it in a timely manner over the entire Program period. The Government will ensure that adequate resources are allocated for this purpose, the implementation of the plan is closely monitored, and the progress is reported in the quarterly reports to ADB.
- (iv) **Good Governance and Transparency.** The Government will ensure that ADB's *Anticorruption Policy* (1998, as amended to date) is followed throughout Program implementation and acknowledges that ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Program. The Government will allow ADB representatives to carry out spot or random checks on the flow of funds. The Government shall allow independent auditors, acceptable to ADB, to undertake performance audits on a random basis to review the Program implementation.

ERRA will publicly disclose on the website the on the website the Program related information, including among other things, information on the release of funds to the intended beneficiaries, applicable procedures, financial statements, and loan utilization. Likewise, national and provincial or state newspapers in the English, Pushtoo, and Urdu languages shall carry such details on a regular basis, at least once a month. Similarly, television and radio broadcasts shall be made in these languages broadcasts at national and provincial or state levels giving these same details.

- (v) **Accounting, Audit and Financial Management.** The Government will maintain existing accounting and audit procedures, and the financial management system established under the EEAP to ensure efficient and economic use of the ADB financing proceeds. Accounts and financial statements in relation to the Program will be prepared and certified by independent auditors acceptable to ADB.

B. Condition for Loan Effectiveness

62. In addition to standard conditions (execution of the loan agreement and submission of a legal opinion, satisfactory to ADB), the Government will grant appropriate approvals for the Loan and the TA, and submit a duly signed TA Letter of Agreement to ADB.

VII. RECOMMENDATION

63. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank and recommend that the Board approve:

- (i) the loan in various currencies equivalent to Special Drawing Rights 263,875,000 to the Islamic Republic of Pakistan for the Earthquake-Displaced People Livelihood Restoration Program, from ADB's Special Funds resources, with an interest charge at the rate of 1% per annum, and repayment of principal at 2% per annum for the first 10 years after the grace period and 4% per annum thereafter; a term of 40 years, including a grace period of 10 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan Agreement presented to the Board;

- (ii) waiver of the requirements for a 12 week processing period, that quick-disbursing components finance a list of imports, and that no more than 30% of the loan proceeds be used for retroactive financing of expenditures, all under the Disaster and Emergency Assistance Policy (2004) and as discussed more fully in paragraph 23 of this Report.

Haruhiko Kuroda
President

6 June 2007

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Indicators and Targets	Data Source and/or Monitoring Mechanisms	Assumptions and Risks
<p>Impact</p> <p>Restoration and improvement of the livelihood for the earthquake-displaced people in NWFP and AJK</p>	<p>By the end of 2013:^a</p> <p>GDP for NWFP will increase from 5.6% in 2005 to 6.5% in 2013</p> <p>% of houses with burnt bricks or blocks for walls in NWFP increased from 49% in 2004 to 70% in 2013</p>	<p>Statistical books and other official and international sources</p> <p>ERRA's monitoring and evaluation reports</p> <p>Validation by third-party monitors engaged by ERRA</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Government and development agencies allocate adequate resources for reconstruction in other sectors • Macroeconomic and security conditions favorable for economic development <p>Risks</p> <ul style="list-style-type: none"> • Another earthquake may occur before 2013
<p>Outcome</p> <p>Most earthquake-displaced people will live in seismically compliant houses</p>	<p>By the end of 2010:</p> <p>At least 85% of the 3.5 million affected people will move into seismically compliant houses</p> <p>Of the people who have moved into the seismically compliant houses, more than 23% in NWFP and 31% in AJK of the households will be headed by women</p>	<p>ERRA's monitoring and evaluation reports</p> <p>Validation by third-party monitors engaged by ERRA</p>	<p>Risks</p> <ul style="list-style-type: none"> • Another earthquake may occur before 2010
<p>Outputs</p> <p>1. Seismically compliant houses completed without major delays</p> <p>2. Capacity built in seismic building techniques, financial management, monitoring and evaluation, protection of vulnerable groups, and environmental and social safeguards</p>	<p>By June 2010, 85% of the 585,000 rural houses will be rebuilt and are seismically compliant</p> <p>At least 50,000 additional house owners will be trained by May 2008, including women and other vulnerable groups</p> <p>Number and types of trainings in the other areas to be determined in accordance with actual needs during implementation of the attached Technical Assistance</p>	<p>ERRA's monitoring and evaluation reports</p> <p>Validation by third-party monitors engaged by ERRA</p>	<p>Assumption</p> <ul style="list-style-type: none"> • Government will fulfill its assistance that it will allocate enough funds from its budget for housing reconstruction • There is enough capacities for housing construction • Seismically standards are strictly enforced • alternative sites can be found for those houses for which the original sites are either lost due to landslides or are located in the "red" zone • Most affected people will use the compensation money for house construction and have enough savings to finance expansion beyond the minimum living areas

Design Summary	Performance Indicators and Targets	Data Source and/or Monitoring Mechanisms	Assumptions and Risks
			Risks <ul style="list-style-type: none"> • Fiduciary risks, e.g., corruption • There is a major escalation of costs of construction materials due to increased demand
Activities with Milestones <ol style="list-style-type: none"> 1. 85% of the households who have received the second payment of housing subsidy will receive the third payment by no later than 31 December 2007 2. 85% of the households who have received the third payment of housing subsidy will receive the fourth payment by no later than 31 May 2007 3. Housing training to be completed by May 2008. 			Inputs <ul style="list-style-type: none"> • ADB: \$400 million ADF Loan • \$2 million technical assistance • Government's in-kind contribution to technical assistance • International consultant: 6 person-months • Domestic consultants: 325 person-months • ADB staff inputs and supervision

^a The information for the indicators is only available for NWFP. All the information for AJK is not available as the state has not yet started to conduct economic and social surveys.

ADB = Asian Development Bank, ADF = Asian Development Fund, AJK = Azad Jammu and Kashmir, ERRA = Earthquake Reconstruction and Rehabilitation Authority, GDP = gross domestic product, NWFP = North-West Frontier Province.

EARTHQUAKE RECONSTRUCTION AND REHABILITATION PROGRAM

A. The Earthquake and Preliminary Damage Assessment

1. The 8 October 2005 earthquake that hit northern Pakistan was the most devastating in the nation's history, with the official death toll at more than 80,000. Immediately after the earthquake, at the request of the Government of Pakistan (the Government), a mission led by the Asian Development Bank (ADB) and World Bank conducted a preliminary damage needs assessment (PDNA). This mission was supported by other development partners and nongovernment organizations (NGOs) including United Nations Development Programme (UNDP), European Union (EU), United States Agency for International Development (USAID), Department for International Development DFID, Japan Bank for International Cooperation/Japan International Cooperation Agency (JBIC/JICA), Deutsche Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation, GTZ), Kreditanstalt für Wiederaufbau (KfW), World Health Organization (WHO) and Food and Agriculture Organization (FAO) conducted a preliminary damage needs assessment (PDNA). Representatives of the Government and the Governments of North-West Frontier Province (NWFP) and Azad Jammu and Kashmir (AJK) participated on the sector teams. The assessment estimated the damage and reconstruction costs of the earthquake that struck areas of NWFP and AJK, and the related economic implications of the event. An assessment also was made of the emerging needs of the affected communities that would be reflected in the medium- to longer-term reconstruction and recovery phases following the initial relief efforts. This included (i) guiding principles for reconstruction in each sector, and (ii) reconstruction strategies underpinned by those guiding principles. A significant issue was the lack of good baseline data.

2. The data presented in the PDNA are based on government sources, team research, and a field assessment conducted by consultants to ensure adequate coverage and verification of affected areas. The PDNA estimated the total reconstruction cost at more than \$3.5 billion. This estimate has been revised and refined as access to remote damaged areas has improved; as detailed sector strategies were developed; and as development partners, including ADB, confirmed their portfolios.

3. In summary, the PDNA identified the reconstruction costs for the sectors in which ADB is engaged (or might be engaged): (i) housing, \$1,552 million; (ii) education, \$472 million; (iii) transport, \$416 million; (iv) health, \$303 million; and (v) power, \$30 million. Some crosscutting themes, including social aspects, were identified but not costed. Some sectors subsequently were identified, including the social sector in which ADB has a small engagement.

B. Responses by the Government and International Communities

4. With strong support from the international community, the Government has adopted a "Building Back Better" strategy, which aims to rebuild infrastructure to post-earthquake standards, and develop improved policy and institutional frameworks. The Earthquake Reconstruction and Rehabilitation Authority (ERRA) was established to oversee and monitor the overall reconstruction and rehabilitation (R&R) program. It is supported by two regional branches: Provincial Earthquake Reconstruction and Rehabilitation Agency (PERRA) for NWFP, and State Earthquake Reconstruction and Rehabilitation Agency (SERRA) for AJK. These, in turn, are supported by district reconstruction units (DRU) at the district level. A separate agency was created to coordinate earthquake reconstruction, because the capacities of the existing government agencies were considered too weak to handle the enormous R&R

tasks. Other measures designed to improve the effectiveness and efficiency of the R&R program include (i) strengthening the decision making and implementation capacities in the two affected provinces/states, using simplified approval and implementation procedures; (ii) ensuring the R&R program meets appropriate safety, quality, technological, and environmental standards; and (iii) establishing transparent procedures and allowing third-party monitoring..

5. During the donor conference of 19 November 2005, aid agencies pledged more than \$6.6 billion in loans and grants. As part of these efforts, ADB committed \$1 billion in the form of concessional loans and grants to support the reconstruction and rehabilitation efforts of the Government. An estimated \$4.4 billion of the total pledges of \$6.6 billion have been turned into formal commitments, including \$2.2 billion as grants. Bilateral grants totaled about \$1.8 billion of the committed amount.

6. On 14 November 2005, ADB approved its first package of assistance, totaling \$185 million. This included (i) reallocation of \$105 million from loan savings under various ongoing loans, of which \$85 million was disbursed as budgetary support; and (ii) the establishment of Pakistan Earthquake Fund (PEF), supported by an initial grant of \$80 million from ADB. On 13 December 2005, ADB approved the follow-up Earthquake Emergency Assistance Project (EEAP) for \$300 million, consisting of a PEF grant of \$80 million and a loan of \$220 million from ADB's Special Funds Resources. These operations raised ADB's contribution for the reconstruction effort to \$405 million. This amount does not include \$5 million in grant project financing from the Japan Fund for Poverty Reduction, and reallocated funds equivalent to \$62.5 million from several other ADB-financed projects. In addition, the Office of Cofinancing and the Pakistan Resident Mission worked together to mobilize approximately \$97 million in grant funding as contributions to PEF (by Norway and Belgium) and EEAP.

C. Update on Damage Assessment and the Earthquake Reconstruction and Rehabilitation Program

7. Due to the time constraint and inaccessibility of some remote earthquake-affected areas, the preliminary damage assessment inevitably contained inaccuracies. It has been revised and updated with the progress of the R&R program and improved access to the remote areas. This section provides an update of the damage assessment and progress made in the R&R program on a sector-by-sector basis.

1. Power

8. The PDNA for reconstruction of the power infrastructure was estimated at \$30.81 million, which included reconstruction and rehabilitation of nine hydropower stations, 10 grid stations, transmission and distribution lines, meters, and service cables. It also covered the provision of electricity to relief tent villages and field hospitals. ERRRA's Reconstruction and Rehabilitation Strategy for the Power Sector (undated) estimated the reconstruction cost at \$40.11 million, compared with the initial PDNA estimate of \$30.81 million. ADB is fully funding the power sector, which has no funding gap. While the overall performance in the power sector has been partly satisfactory, all transmission and distribution lines have been restored and more than 50 contracts have been awarded.

2. Transport

9. The PDNA estimated the costs for reconstruction of transport infrastructure, including roads and bridges, at \$416 million. This included reconstruction and rehabilitation of 4,623

kilometers of national highways and other roads. Subsequently, Earthquake's Reconstruction and Rehabilitation Agency's (ERRA's) Reconstruction and Rehabilitation Strategy for the Transport Sector (undated) increased the length of damaged roads and bridges to 6,403 km. The total cost of reconstruction of all the affected roads and bridges was increased to \$458 million (including \$69 million for national highways). The PDNA underestimated the degree of damage and the cost of repair for many of the road segments. Furthermore, the damage has worsened over time due to effects of extreme weather, and further deterioration due to lack of maintenance and timely reconstruction.

10. In March 2007, ERRA decreased the length of damaged roads to 6,305 km, and the cost of reconstruction and rehabilitation of all the affected roads and bridges was revised downward to \$436 million (including \$100 million for national highways). As only \$257 million is currently available, the funding gap is \$179 million. The government of AJK is reassessing the extent of the damage. The current engineer's estimates are based on on-the-ground realities, and exceed the estimates by 300%–500% in some instances. The current fund probably will not cover the reconstruction and repair activities originally envisaged. Equally apparent, the reconstruction costs in AJK are twice the unit costs in NWFP.

11. ADB is the major funding agency for the reconstruction of provincial and state roads. JICA is providing government counterpart funding for the ADB loan. The other partners in reconstruction of roads are the DFID, Government of Germany, and World Bank.

12. The overall performance in the transport sector was initially unsatisfactory. The road planning, procurement, and contract procedures often can take 6 months. These procedures have been streamlined, and the contract awards have increased substantially. As of March 2007, contracts have been awarded for 166 km of roads (of 1,377 kilometers) in NWFP and 68 kilometers of roads (of 755 kilometers) in AJK in ADB's road portfolio.

3. Health

13. The PDNA estimated the costs for reconstruction of the health sector at \$303 million for AJK and NWFP. In all, 574 health facilities in nine districts of AJK and NWFP were reported fully or partially damaged. The PDNA also identified another 110 health facilities in the earthquake-affected districts that needed to be assessed for safety against possible future seismic activity in the area, although these were not damaged during the earthquake.

14. Subsequently, ERRA's Reconstruction and Rehabilitation Strategy for the Health Sector (undated) reported that 388 health facilities were destroyed, 197 needed retrofitting, and 211 needed to be assessed. The strategy identified 237 health facilities for reconstruction, 105 partially damaged facilities for retrofitting, and 110 undamaged facilities for structural assessment. The total cost of reconstruction and rehabilitation was estimated at \$305 million, broadly consistent with the PDNA estimate.

15. In late March 2007, ERRA identified 305 health facilities for reconstruction (excluding 37 civil dispensaries to be reconstructed in the third year). The cost of reconstruction is now estimated at \$240 million (excluding civil dispensaries). The number of health facilities funded for reconstruction is 266 (253 confirmed and 13 tentative pledges), leaving a gap of 39. Currently, \$226 million is available, leaving a funding gap of \$13.5 million.

16. ADB is among a number of development partners providing assistance in the sector, including JICA, United Nations Children's Fund (UNICEF), and USAID. While implementation

progress has been relatively slow, all health facilities are operational through the use of interim structures. In 2006–2007, a total of 165 health facilities are planned for reconstruction. Additional 28 facilities are being planned, including those scheduled for reconstruction in 2008; 142 are being procured; eight are under construction; and four have been completed and handed over for operation.

4. Education

17. The PDNA estimated that 6,232 education buildings in nine districts of AJK and NWFP were reported fully or partially damaged, including private institutions. The cost for reconstruction of the education sector was estimated at \$472 million. Subsequently, ERRA's Reconstruction and Rehabilitation Strategy for the Education Sector (February 2006) reported a decreased number of damaged institutions i.e., 5,344. As ADB's EEAP team confirmed its portfolio in conjunction with ERRA and the governments of AJK and NWFP, the number of damaged government education institutions increased to 6,472 from 5,344 in ERRA's Reconstruction and Rehabilitation Strategy. The cost of reconstruction is estimated at \$1,158 million. The number of schools with committed funding for reconstruction is 2,599 at a cost of \$512 million, leaving 3,873 schools in need of financing or a funding gap of \$646 million.

18. ADB is among a number of development partners, including JICA, UNICEF, and USAID, providing funding for the reconstruction of the education sector. Implementation progress has been slow. In 2006–2007, 1,574 educational facilities are planned for reconstruction, of which 956 have been allocated to development partners and NGOs, and 752 to the Government. Contracts for reconstruction of more than 100 schools have been awarded, more than 30 schools have been completed, and another 200 schools are in different stages of contract awards. However, this pace will not be fast enough to reconstruct the 6,472 schools and related institutions in a reasonable time frame. The main reasons for the delay is (i) the long planning and approval process; (ii) the major gap in the capacity of the Government institutions to implement this large portfolio; and, most importantly, (iii) the lack of free capacity in the contracting industry to construct this large and disbursed portfolio of education institutions.

5. Livelihood Support and Housing Reconstruction

19. Progress has been most significant in housing reconstruction. The PDNA estimated total financing needs for housing reconstruction will be \$1.55 billion. As of 31 March 2007, about \$890 million had been disbursed for reconstruction of damaged and destroyed houses as housing grants through four installments (\$416, \$1,250, \$416, and \$834, respectively). The funds have been disbursed to about 585,000 rural households in 290 union councils in NWFP and AJK. This includes a portfolio of 463,000 households managed by ERRA (expected cost \$1.111 billion at 100% completion), and 122,000 households being managed by Pakistan Poverty Alleviation Fund (expected cost of \$281 million at 100% completion). All affected households have received the first installment, 97% have received the second installment, and 21% have received the third installment. The fourth installment has not been disbursed, signifying that a majority of houses has not been completed and most people still are living in temporary shelters.

20. The World Bank has been a major financier for livelihood support (\$80 million cash grants for food and other basic needs) and housing reconstruction in addition to Government's financing through budget contribution. Some development partners, including DFID and the Islamic Development Bank, also have contributed to the financing of housing reconstruction by providing support to the Government's central budget or providing program financing to ERRA.

21. The relatively fast progress in housing reconstruction has benefited from a number of advantages in the sector. One key advantage was the lack of existing systems or institutions in place, which offered the opportunity to design and implement processes and systems from scratch. The second advantage was the immediate mobilization of thousands of trained and mobile Army personnel, supported by international NGOs, in more than 600 teams for housing inspections, certification of payments, quality control, monitoring, and training of households in seismically compliant construction. The third key advantage was the design of the program, which was owner-driven, based on subsidies and direct fund transfers to beneficiaries using in situ construction. In situ and owner-driven construction has been an efficient way of addressing the immediate housing issue. However, this approach has weakened quality control, and has increased the burden on the other sector services that will follow housing construction (due to highly dispersed house locations). Much more extensive and costly infrastructure might have to be built to provide social and utility services.

6. Legal Assistance Targeting Vulnerable Groups

22. The PDNA did not provide a cost estimate for a social protection program. In April 2006, ADB fielded an inception mission to identify interventions related to legal assistance to earthquake-affected people. This mission developed an “intervention matrix”, comprising a wide range of activities to be financed with an outlay of \$3.6 million for social protection of the earthquake-affected population. Those activities include (i) securing legal identity; (ii) securing public records; (iii) dedicating courts for family and property matters; (iv) supporting land entitlements; and (v) raising legal awareness, and providing legal assistance and public grievance redress, transparency and earthquake data collection, capacity building for civil society organizations, and capacity development for gender and vulnerability mainstreaming for ERRA at all levels. The matrix was revised in April 2007 after consultation with the main stakeholders. New estimates show that the activities for social protection might cost about \$5 million.

23. ADB is one of a number of development partners providing funding for social protection. Initial progress in social protection has focused on (i) placing social protection coordinators at PERRA, SERRA, and DRUs; (ii) implementing projects targeting the rehabilitation of disabled/paraplegics; (iii) commissioning a targeted survey of vulnerable groups, including widows, orphans, the elderly, the landless, and the disabled; and (iv) promoting the development and approval of a comprehensive strategy to support the landless.

7. Institutional and Governance Structure

24. ERRA was established in 2005 through a presidential notification in response to the 8 October 2005 earthquake. After a long gestation period, ERRA is now well established. Strategies for all sectors, including housing, livelihood, health, education, sponsorship schemes, transport, power, and government buildings, have been developed and approved, with active support and participation of ADB and other partners. Most of the staff of the newly established institutions is in place, and operational procedures in key sectors are functional.

25. ERRA has developed accounting procedures and financial management guidelines. The Ministry of Finance and the Auditor General of Pakistan have reviewed these guidelines, which have been approved. The first external audit of ERRA was conducted for FY2006, and the results were satisfactory. The progress on implementing the recommendations of the auditors,

which World Bank, ADB, and other development partners are jointly monitoring, is also satisfactory.

8. Reporting, Monitoring, and Evaluation

26. Technical assistance (TA) teams financed by the seven major development partners (G-7), including DFID, World Bank, and ADB, have been mobilized. These teams have developed the basic framework and requirements for a harmonized monitoring and evaluation system for ERRA, and the Emergency Monitoring and Evaluation Framework (EMEF), which is being implemented. EMEF will provide detailed information on progress made in each sector, and will identify problems and bottlenecks hindering progress.

27. ERRA has established a monitoring and evaluation (M&E) wing to spearhead the development and implementation of the EMEF. The cell is responsible for the external monitoring of activities undertaken by the NGOs, bilateral and multilateral agencies, and government departments. ERRA's M&E wing has a presence at the districts through their field units, which are responsible for sample monitoring and ensuring compliance with agreed benchmarks and standards. The M&E wing is only collecting data on the performance of the housing and livelihood (cash grant) sectors. DFID also is mobilizing a TA team to strengthen the M&E wing of ERRA and augment its technical capacity.

28. ADB, as a member of the G-7 donors, has been involved extensively in planning and developing the EMEF. It has provided technical and financial support to ERRA and the M&E wing through grant funding for a number of positions within the M&E wing, along with technical advice on the institutional setup to facilitate the timely implementation of the EMEF and R&R activities. This support comes in form of incremental staff, long-term sector specialists financed through the TA on Capacity Building for the Office of the Auditor General of Pakistan,¹ and establishment of project implementation units.

29. The M&E wing is outsourcing monitoring and data collection (MDC) and third-party validation (TPV) as part of its strategy to implement the EMEF. The MDC component is to collect data and provide information on construction and non-construction (socioeconomic) R&R activities. The data collection, monitoring, and evaluation of R&R activities will be assessed against preset performance indicators developed by the M&E wing and reviewed by development partner agencies. The information generated will feed into a central database for analysis, information dissemination, and the annual TPV. The hiring of the potential firm for MDC has been finalized, and will be considered in the next Monitoring & Evaluation Advisory Committee (MEAC) meeting. MEAC oversees the strategic and operational issues of EMEF, and has representation from key development partners, including ADB.

30. The TPV is to occur annually. This component will use data collected by the MDC to evaluate R&R activities. It also will review (i) the performance of the Government earthquake institutions and implementing agencies (IAs) in managing projects; (ii) the appropriateness of program design to meet the needs of target groups; (iii) the transition from relief to rehabilitation; (iv) the sustainability of the projects; (v) capacity building of Government institutions to manage similar future eventualities; (vi) the broader impact of the R&R activities on the livelihoods of the

¹ ADB. 2005. *Technical Assistance to Pakistan for Capacity Building for the Office of the Auditor General of Pakistan*. Manila (TA 4730-PAK, for \$2,000,000, approved in December).

community, including the local economy; and (vii) the approach adopted and its appropriateness for replication across Pakistan. Although bids were received from a number of firms, the procurement committee was unable to select a suitable firm for the component in its first round of selection. While re-advertisement processes for the TPV component have started, the international hiring process is not expected to be completed before August 2007. In the interim, especially in the period before the second anniversary of the earthquake, G-7 donors have agreed to conduct an in-depth review starting June 2007, which will (i) revisit and update the damage needs assessment, (ii) evaluate the performance of the agencies involved in R&R activities, (iii) review the sector strategies and their implementation, and (iv) confirm gaps in progress and funding for each sector.

31. ERRA's health and housing sectors have started collecting and collating project data, and are processing monthly progress reports from the field through their IAs. ADB also has taken the lead in assisting ERRA's planning wing in developing a standardized project reporting system for the remaining sectors. This system will generate the essential data for progress monitoring, and will establish a baseline for external monitoring and evaluation. With reporting formats agreed upon, reporting in most sectors will start by the end of May 2007.

D. Progress Update on ADB's EEAP

32. ADB's EEAP grant and loan, important components of the earthquake R&R program, were declared effective on 14 February 2006. The EEAP funding support (now \$377.5 million) is expected to help mitigate the effects of the devastating earthquake, revive economic activity, and enable people to resume their livelihoods and return to normal life. This will be achieved by rehabilitating and reconstructing high-priority infrastructure in the education, health, power, and road sectors. In addition, the EEAP provides TA to these sectors, including support for financial management and governance. Of the \$377.5 million, \$112.5 million was disbursed (quick-disbursing assistance) to finance the unusually high or unexpected expenditures required for rehabilitation and reconstruction in the aftermath of the earthquake.

33. The overall performance of EEAP is generally satisfactory. As of 31 March 2007, physical progress achieved, particularly in immediately repairing the damage to power facilities and roads, is 15%. Total contract awards reached 21% and 46%, and disbursements reached 18% and 46% for the loan and grant, respectively. Progress has been generally satisfactory in roads and power components, where many contracts have been awarded. The progress on the health and education components has been slow, mainly because of the poor response of the national contractors. The progress is expected to improve after hiring of consultants, which is in final stages. The time lost in procurement would be recouped by packaging works under these two components into large contracts for international competitive bidding (ICB).

34. To support and fill the capacity gaps at the implementation level, as well as for due diligence and safeguards monitoring, ADB has completed the hiring of staff and consultants. ADB recently started construction of an extended mission building in Muzafarabad. The long-term professional positions were hired using TA 4730² funds and a grant from the Australian Agency for International Development (AusAID) to fast track the implementation of the earthquake portfolio, and to help the IAs develop and process the portfolio in the short term using ADB guidelines and safeguards.

² ADB. 2005. *Technical Assistance to the Islamic Republic of Pakistan for the Capacity Building for the Office of the Auditor General*. Manila (TA 4730-PAK, for \$2,000,000, approved in December).

35. Most development partners including some bilateral agencies are implementing their portfolios directly. ADB is one of the few development partners utilizing “indirect contracting” through the Government institutions to deliver its earthquake project portfolio. This is a high-risk methodology, especially because some of the Government institutions established in response to the earthquake (ERRA, PERRA, and SERRA) are immature, and lack institutional knowledge and experience. As the volume of work in most cases is at least double annual portfolios of the IAs, it is beyond their existing capacities. All the sectors chosen by ADB have line agencies on the ground, which cannot be bypassed in the interest of ownership and sustainability of the investment. Additionally, all ADB-financed sectors need extensive coordination, planning, design, disbursement, accounting, and procurement procedures to be put in place before implementation can begin.

E. Future Prospects and Needs in Housing and Education Sectors

36. Despite the progress, many affected people continue to suffer from a lack of basic shelter, as well as access to education and health services. Life in the remote earthquake-affected areas, particularly during winter, remains extremely difficult. Implementation capacities and financial resources show significant gaps. In terms of the overall funding requirement and major gaps in funding, housing and education sectors are the most significant, followed by transport.

37. The gaps in the housing sector are more significant due to a large absorption capacity. A lack of available funds, if the pipeline commitments are not processed in time, could further curtail progress. Table A2.1 shows that the fund requirement in the rural housing sector ranges from \$1.3 billion to \$1.5 billion between low case (85% completion with 73% destroyed houses) and high case scenario (98% completion with 80% destroyed houses). Currently, the funding gap is estimated between \$630 million and \$820 million, compared with the proposed pipeline funding of \$827 million, including \$400 million from ADB. In other words, if all the pipeline commitments materialize, a fund surplus is a possibility. Under such a scenario, the surplus funds could be transferred to other sectors, especially education where the funding gap is \$646 million. However, the limited implementation capacities dictate that at least 2 years will be needed to construct all the schools, if the response to the turnkey pre-engineered approach is good and some capacities are freed up from the housing sector over the next year to provide additional construction capacities.

38. In addition to funding needs, some of the key concerns in the housing sector are the lack of trained manpower, expected demobilization of some NGOs, funding constraints of some bilateral agencies, and withdrawal of the Army—all of which are performing key roles in housing inspections, certification of payments based on agreed benchmarks and criteria, quality control, monitoring, and training of households in seismically compliant construction. This gap needs to fill with urgency to continue to provide trained manpower, ensure compliance, and fast-track the processing of housing grants. In addition, provision of credit services is another area requiring urgent attention, as the funding being provided (as housing grants) is not always sufficient to build a house that complies with ERRA standards. In many cases, people cannot complete their houses due to a lack of additional funds required to meet these standards.

39. Education is another sector with a large financing gap. As shown in Table A2.2, the funding requirement in the education sector is about \$1.16 billion. Development partners, including ADB, have committed \$513 million to construct 2,600 schools.

40. Based on the review of the situation, ADB and ERRA have concluded that the large volume of ongoing work in the housing sector has fully utilized the capacity of domestic contractors. National contractors are not showing interest in the affected areas due to risks involved in conventional construction (harsh weather conditions, scattered school locations, and limited access due to bad road conditions), and the availability of work under better conditions elsewhere in Pakistan. To respond to this situation, ERRA (with ADB support) intends to attract additional capacities internationally through larger packages of middle schools funded by ADB, and will undertake ICB on a turnkey basis using a specification for light steel frame pre-engineered structures for the reconstruction of middle schools. Consulting services have been hired for this activity and procurement documents have been prepared, which are being reviewed, using ADB guidelines. This ICB procurement will set the standards and specifications for future procurement in the education sector for construction of Government education institutions, irrespective of funding sources. Although this process has delayed, and to some extent has increased the time required for procurement, the construction period is expected to decline and lost time is expected to be regained by following this approach and using multiple packages (i.e., using capacities of many international contractors simultaneously).

F. Lessons Identified

41. Earthquake situations are very dynamic and require adjustments, flexibility, and adaptive decision making. To respond effectively to an emergency portfolio, ADB has to move from “business as usual” to a “flexible and efficient response” mode that focuses on procedural and technical guidance and advice (as with EEAP), as well as offers special flexible procedures, delegation, dedicated legal and procurement support from ADB, and an efficient system of processing and response.

42. In an overloaded emergency environment, ring fencing an individual portfolio with special procedures and requirements is extremely challenging, as this increases the overload. The focus should be on strengthening the overall system, including financial, environmental, and social safeguards and operational procedures, to manage for overall results, rather than the individual portfolios of funding agencies. This could include designing a more flexible overall system focused financial products that can respond effectively to emergency needs.

43. Establishing new institutions to handle the earthquake portfolio has been a very time-consuming and difficult process, and has created a lot of confusion regarding the roles and responsibilities of the existing IAs. With the roles of these new institutions now consolidated, attention is refocused on IAs, which need urgent support, resources, and clarity of role.

44. Building and acquiring additional capacities has been by far the biggest challenge in the implementation of the earthquake portfolio. To address this issue, the policy to tap resources from outside the affected areas at market rates and to attract international resources where required, must be revised.

45. The volumes of the earthquake portfolio are overwhelming (4–10 times the annual budgets) compared with the profiles of the IAs that are expected to implement these portfolios. Additional portfolio has been given to IAs without the additional resources and staff required to implement this expanded load. ERRA has prioritized certain sectors without planning adequately for the capacity required to handle even the priority sectors (except housing, which has been a priority from the start). Capacity deployment has to be part of the planning and prioritization process for the new institutions and the line agencies. Sufficient resources have to

be allocated for this purpose internally, rather than depending excessively on outside agencies, which is typically the case in the current scenario.

Table A2.1: Financing Plan of Rural Housing
(\$ million)

Institution	Funding Secured	Funding Pipeline	Total
World Bank Credit	210	130	340
World Bank Pakistan Poverty Alleviation Fund	198		198
Germany	13		13
International Fund for Agriculture Development	17		17
France	45		45
Islamic Development Bank	76	127	203
Asian Development Bank		400	400
Secured and Potential Fund Supply	559	657	1,216
Low-Case Scenario (85% completion at 73% destroyed)			
Estimated Total Required Funding (low case)			1,189
Funding to be Secured (excluding pipeline)			630
High-Case Scenario (98% completion at 73% destroyed)			
Estimated Total Required Funding (high case)			1,375
Funding to be Secured (excluding pipeline)			816

Note: The above figures only reflect the housing grant and not the software support.

Sources: Earthquake Reconstruction and Rehabilitation Authority and Asian Development Bank estimates.

Table A2.2: Cost Estimates and Funding Gaps in Education Sector
(\$ million)

Azad Jammu and Kashmir							
Category	Unit Cost Estimate	Total Number of Institutions	Total Cost	Number of Institutions Funded	Available Funds	Number of Institutions with No Funding	Fund Gap^a
Primary	0.13	2,126	282.76	739	98.29	1,387	184.47
Middle^b	0.27	590	156.94	499	132.73	91	24.21
High	0.37	327	119.68	126	46.12	201	73.57
High and Secondary	0.45	27	12.15	13	5.85	14	6.30
College	1.25	43	53.75	14	17.50	29	36.25
University	5.00	1	5.00	1	5.00	0	0
		3,114	630.28	1,392	305.49	1,722	324.79
North-West Frontier Province							
Primary	0.13	2,778	369.47	982	130.61	1,796	238.87
Middle	0.13	329	43.76	98	13.03	231	30.72
High	0.37	197	72.10	100	36.60	97	35.50
High and Secondary	0.45	35	15.75	13	5.85	22	9.9
College	1.25	18	22.5	13	16.25	5	6.25
University	5.00	1	5.00	1	5.00	0	0
		3,358	528.58	1,207	207.34	2,151	321.24
Total		6,472	1,158.86	2,599	512.83	3,873	646.04

^a Numbers may not sum precisely because of rounding.

^b Middle schools in Azad Jammu and Kashmir include both middle and primary classes.

Sources: Earthquake Reconstruction and Rehabilitation Authority and Asian Development Bank estimates.

FINANCIAL MANAGEMENT AND FIDUCIARY ASSESSEMENT

A. Implementation Arrangements and the Role of ERRA

1. In the immediate aftermath of the 8 October 2005 earthquake, the Government of Pakistan (the Government) established the Earthquake Reconstruction and Rehabilitation Authority (ERRA) as an umbrella statutory authority to manage the overall implementation and monitoring of the recovery exercise. ERRA has been mandated to define operational policies and guidelines, direct the uniform implementation of the disaster management programs, and manage the grievance process. It has been responsible for the management of the funds provided by multilateral and bilateral development partners, private targeted donations, and budgetary contributions of the Government towards the reconstruction and rehabilitation (R&R) program.¹

2. On behalf of the Government, ERRA prepared an operations manual for the recovery program. This provides the policies and guidelines for the strategic and operational management of the program. Ensuring transparency and accountability in utilizing R&R resources has been a major principle underlying the policies and guidelines. Financial management and auditing procedures, including funds flow control arrangements and procedures, designed by the Auditor General of Pakistan (AGP) and/or Controller General of Accounts (CGA)/and the Ministry of Finance (MOF), formed part of this manual.

3. The recovery program has been implemented through the North-West Frontier Province (NWFP) Provincial Earthquake Reconstruction and Rehabilitation Agency (PERRA), the Azad Jammu and Kashmir (AJK) State Earthquake Reconstruction and Rehabilitation Agency (SERRA), district reconstruction units (DRU), National Highway Authority (NHA), Water and Power Development Authority (WAPDA), FWO, people with disabilities (PWD), Pakistan Poverty Alleviation Fund (PPAF), nongovernment organizations (NGOs), or such other mechanisms that ERRA has authorized. ERRA finances the remunerations/fees of qualified technical and financial management personnel in each PERRA/SERRA and DRUs, and evaluates and monitors processes during implementation.

B. Accounting Policies and Procedures, the Information System, and Staffing

4. ERRA has been required to comply with the International Public Sector Accounting Standards (IPSAS) cash basis of financial reporting for its year-end financial statements, and to provide by way of notes to the accounts material financial commitments at the end of each year. The notes include a summary of expenditures pertaining to each of the 8–9 affected districts on a segmental basis, and according to the core components of the recovery program. The operative procedures have been clearly spelled out in the financial management procedures prepared by the AGP, CGA and MOF, which form part of the operations manual of ERRA.

5. To enable effective financial management, ERRA is in the process of implementing a computerized financial management system. This system will serve as a consolidation bench for the integrated Management Information system (MIS) of the ERRA program, and will be used for preparing financial management reports and financial statements.

6. ERRA has been adequately staffed by a qualified financial management team comprised of market-based professional accountants. PERRA and SERRA have established a Financial

¹ ERRA was established through Government notification no. F.1(4)/2005-Admin. on 24 October 2005.

Management Unit. Others entities that implement self-accounting, such as NHA and WAPDA, have adequate financial management arrangements to enable compliance reporting to ERRA. AGP provided auditors to PERRA and/or SERRA to continuously post-audit transactions and the financial and physical progress reports before final submission to ERRA. AJP also has provided one auditor at each DRU to carry out the post-audit of transactions and reports at that level before submitting them to PERRA and/or SERRA.

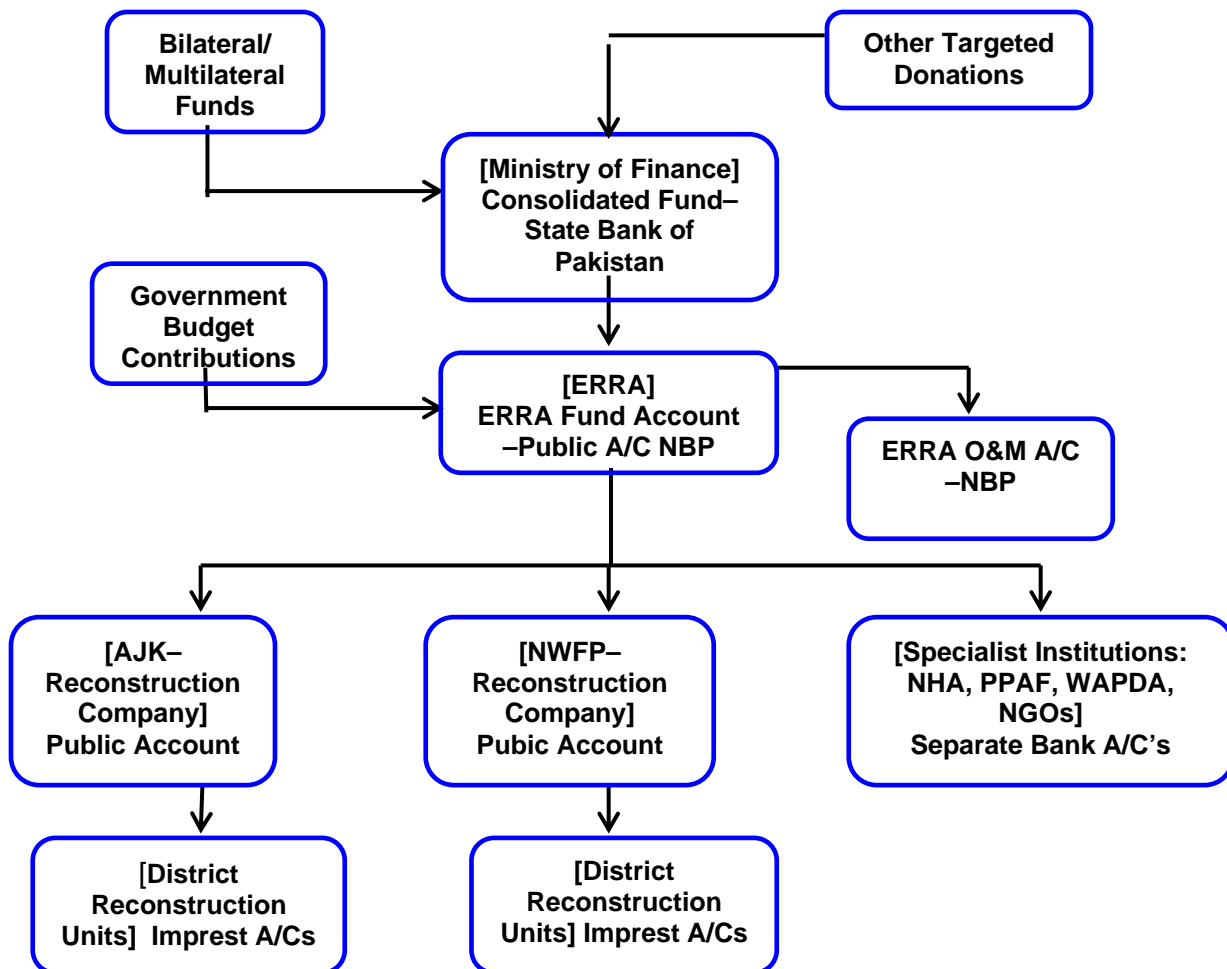
C. Flow of Funds and Disbursements

7. Development partner-contributed funds form part of ERRA fund account as sub-receipt accounts held with the State Bank of Pakistan (SBP). Under the proposed ADB assistance, funds from ADB will enter the federal Government's consolidated account for external financing. All external financing is required to enter the specified federal Government budget line item to ensure financial control at the entry point. Releases from the federal Government budget will be transferred from the federal consolidated fund to the ERRA fund account as a sub-account to be used in accordance with the Government of Pakistan's transparent and accountable financial rules for emergency situations.

8. ERRA funds have been credited to the 'ERRA Trust' account, which the Government created within its chart of accounts under the new accounting model. Budgeting and accounting codes have been introduced to capture and track receipts into the account and payments from the account. To tackle the issue of fund fungibility, the Program will require that the Government ensures the financing of the entire earthquake R&R program.

9. The accounting mechanism for the purpose of receiving and reporting the loan proceeds will be carried out as per the requirements of the Government's MOF Circular of November 25, 2002, as revised on 15 April 2005, relating to the maintenance and operation of "revolving fund" accounts of ADB and World Bank credits and loans. The usage of the loan proceeds will follow existing practices. A schematic flowchart of the fund flows of the ERRA program is in Figure A3.

Figure A3: Funds Flow of the Earthquake Reconstruction and Rehabilitation Program



A/C = account, AJK = Azad Jammu and Kashmir, ERRA = Earthquake Reconstruction and Rehabilitation Authority, NBP = National Bank of Pakistan, NGO = nongovernment organization, NHA = National Highway Authority, O&M = operation and maintenance, PPAF = Pakistan Poverty Alleviation Fund, PWD = people with disabilities, SBP = State Bank of Pakistan, WAPDA = Water and Power Development Authority.

Source: Earthquake Reconstruction and Rehabilitation Authority.

D. Accounting, Internal Control, Financial Monitoring Reports (FMRs), and External Auditing

10. To ensure uniformity and ease of implementation, the Government's budgeting and accounting system has been as much as possible at all levels. To expedite the implementation process and harmonize the reporting and assurance processes, ERRA has prescribed the reporting requirements of PERRA or SERRA based on its own formats of reporting. PERRA or SERRA then prescribe the reporting requirements of the DRUs. ERRA, however, is empowered to vary the channels of control of implementation activities where capacity constraints exist.

Other implementation agencies, such as NHA, WAPDA, PPAF, and NGOs, have acceptable financial management arrangements.

11. Based on existing practice, DRUs in the NWFP and the office of the District Construction Office (DCO), through the financial management staff [as well as through District Auditing Offices (DAOs), where necessary] recruited by ERRA from the market and paid for from ERRA funds, have been responsible for the accounting and reporting of the expenditures of approved district programs and schemes to the NWFP PERRA. In AJK, the Office of the Commissioner, through recruited financial management staff (as well as through DAOs, where necessary), has provided the accounting and reporting services. The Financial Management Unit of the PERRA or SERRA is responsible for the accounting, internal control, and financial reporting of all funds released to them by ERRA. The arrangement also includes PERRA or SERRA's consolidation of the DRUs' financial reports (using a simplified imprest accounting and reporting format) prepared and delivered to them monthly. For other implementing or participating entities that are autonomous, self-accounting, and have acceptable financial management and reporting arrangements, financial reporting entails the provision of summaries of financial returns on expenditures, as well as implementation progress made for the approved programs and schemes they are implementing. These consolidate the data in the overall financial statements of ERRA. Continuous internal control and internal auditing have been instituted in ERRA, PERRA/SERRA, and each of the 8–9 DRUs. The CGA has delegated internal auditors through deputation, or recruited them from the market at cost to the Program.

12. ERRA has provided quarterly consolidated financial and implementation progress reports, Financial Monitoring Reports (FMRs), to the Government of Pakistan and the donor community in a form of 'Sources of Funds' (according to contributor categories), and 'Uses of Funds' (according to districts, sectors, programs, activities, and schemes) statements, as well as physical progress monitoring reports. FMRs have become a primary tool by all development partners, particularly the World Bank, to monitor the use of their funds for the housing reconstruction which has been used as a basis for releasing future payments. ADB has provided important assistance in financial accounting, reporting, and auditing, including the production and auditing of the FMRs. In an effort to harmonize with other funding agencies and minimize additional burdens, it is proposed that the proposed Program will also use FMRs as a primary tool for monitoring the use of the loan funds for housing reconstruction and for tranche releases.

13. ERRA is responsible for providing overall assurance to the Government, the citizens, and the aid agency community that the program is being implemented transparently, and that the funds expended from the ERRA fund account have been used for the intended purposes and with economy and efficiency. The AGP has been appointed as the external auditor of ERRA. The AGP has conducted its first annual audit of ERRA, and certified the consolidated financial statements for the entire program. This activity was in addition to the continuous post-audits that the assigned AGP staff have performed at PERRA or SERRA and DRUs. The external audit comprehensively covers the cash grant audit, procurement audit, certification audit, civil works audit, environment audit, and performance audit. The existing accounting, internal control, financial reporting, and external auditing practices will be extended to the proposed ADB assistance.

E. Complementary Programs

14. The implementation of the R&R programs benefited from other aid agency programs that have been implemented over the past few years. The earthquake R&R programs have been

principally implemented in the two affected provinces or territories of Pakistan (NWFP and AJK). While the Provincial Public Financial Accountability Assessment for the NWFP by the World Bank in January 2004 highlighted some specific deficiencies, it also pointed out that NWFP is the most successful province in implementing the provincial financial management reform program. The province has adopted the new accounting model using the new chart of accounts, which is International Monetary Fund (IMF) Government Finance Statistics (GFS) compliant, and is one of only two provinces that has achieved a state of readiness to roll out the use of a uniform chart of accounts for all its 24 district governments.

15. The financial management arrangements at AJK are conducted on the same underlying principles as applicable at the federal level. The accounting, internal control, reporting, and auditing systems are based on the federal model, while recognizing that AJK is not a traditional province in the federation. Following the World Bank's country Financial Accountability Assessment (2003), AJK has achieved a high accounts reconciliation rate. Reconciliation levels for receipts, expenditures, intergovernmental accounts, and suspense accounts have been held at 100% over the past 3 years. This has resulted in greater reliability and accuracy of the financial and fiscal data supplied from the AJK, despite the numerous financial transactions carried out through manual accounting processes.

16. With the technical assistance (TA) provided by the World Bank through its PIFRA project, AGP has strengthened significantly its capacity to support the effective and efficient delivery of the financial management and fiduciary requirements of the emergency relief programs. Supported by PIFRA, financial reporting using the SAP/R3 application software has become widespread in the Pakistan public sector. ADB assistance² has also helped to improve the financial management and fiduciary capacity of the Government. ADB also has provided TA to support the Office of Auditor General's (OAG's) capacity for undertaking external audit for ERRA program.

F. Implementation Experience: Achievements and Challenges

17. Despite the huge challenges faced by the earthquake relief programs, the implementation under ERRA generally has been positive. In the financial and fiduciary areas, the commitment of the Government to transparent and accountable processes for the R&R program has ensured relatively smooth implementation. The OAG, in collaboration with the CGA and MOF, has prepared the funds flow, accounting, internal control, financial reporting, and external auditing mechanisms for the ERRA program, and this facilitates the implementation. The first external auditor's report by the OAG reflects this assessment.

18. The outcome has been especially positive in the housing sector, where an owner-driven scheme has been established. The disbursement has been carried out in a maximum four installments, based on evaluation of progress on houses with clearly specified technical standards. Owners have built their own houses, and this process has achieved relatively fast progress. The payments have been disbursed directly to owners' bank accounts. The military has contributed to the much-needed support for monitoring and evaluation of the housing program.

19. Challenges, however, remain. A key challenge has been the recruitment of highly qualified financial and accounting professionals. Due to the harsh conditions and remoteness of

² ADB. 1999. *Regional Technical Assistance for Strengthening Financial Management and Governance in Selected Development Member Countries*. Manila (TA 5877-REG, for \$400,000, approved in December).

the affected areas, the supply of expertise to these areas has been limited. This has resulted in difficulties, especially at the beginning of the ERRA program. The problems generally have been tackled by adjusting the requirement of professionals (for example, relaxing the requirement for chartered accountants) and intensifying the search efforts. Future programs need to account for this constraint when preparing budgets, and must tap the international market whenever necessary. The consulting service rules and procedures need to be simplified accordingly, and the period required shortened reflecting more closely the needs in an emergency situation.

20. Another challenge is expanding the achievements from the housing sector to other sectors. The housing sector's relatively expedient implementation has been supported by the sound principle of utilizing owner's personal initiatives. However, the nature of the housing sector—houses are private goods—also benefited implementation. Moving into sectors that are more public goods, such as education, will pose challenges. Close monitoring and evaluation, and sound financial and fiduciary management, will be particularly important. The mitigating factor is that, through its 1.5 year's of operation, ERRA has accumulated much experience in relief programs. This, coupled with the Government's commitments, can reduce the risks.

OUTLINE TERMS OF REFERENCE FOR CONSULTING SERVICES FOR PROVIDING CAPACITY BUILDING FOR INSTITUTIONS RELATED TO EARTHQUAKE RECONSTRUCTION AND REHABILITATION, PAKISTAN

A. Background

1. The 8 October 2005 earthquake that hit northern Pakistan was the most devastating in the nation's history. The earthquake destroyed more than 600,000 houses, together with many schools and other infrastructure facilities.
2. The Government of Pakistan (the Government) has taken an owner-driven and in situ approach for housing reconstruction, and has made significant progress. Households build their own houses, based on the seismic standards and designs provided by the Earthquake Reconstruction and Rehabilitation Authority (ERRA). Households use the subsidies provided by the Government through ERRA, which are made in four installments based on the physical progress of construction. A major portion of the funds committed by multilateral and bilateral development agencies for housing reconstruction has been disbursed. More than 96% of households have received the second installment.
3. The owner-driven approach for building seismically safe houses requires many inspectors and trainers on the ground. About 25,000 master trainers have received training, and they have trained more than 200,000 affected house owners on seismic building standards and techniques. The Army, together with nongovernment organizations (NGOs), has provided the bulk of the personnel on the ground. However, this has distracted the Army from its regular duties. Civil organizations gradually should replace the Army in conducting inspection and training. The funding for many NGOs also is nearly depleted. A replenishment of the resources needed to continue providing training and inspection, which are essential for the continued success of the housing reconstruction program, is urgently needed.
4. Various development agencies, including the Asian Development Bank (ADB), the Australian Agency for International Development (AusAID), United Kingdom Department for International Development (DFID), United Nations Development Programme (UNDP), United Nations Human Settlements Programme (UN-HABITAT), and the World Bank are providing assistance to ERRA in a number of areas. These include financial management, monitoring and evaluation (M&E), environmental and social safeguards, and social protection of vulnerable groups. Under a TA¹ attached to the earlier Earthquake Emergency Assistance Project (EEAP),² ADB has engaged a team of consultants to provide TA in most of these areas. However, continuing support is needed in (i) community-based training on seismic standards and building techniques; (ii) financial and strategic management; and (iii) environmental and social safeguards.
5. To meet these needs, an advisory TA project is proposed to be attached to the Program.

¹ ADB. 2005. *Technical Assistance to the Islamic Republic of Pakistan for Capacity Building for the Office of the Auditor General of Pakistan*. Manila (TA 4730-PAK, for \$2,000,000, approved in December).

² ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Pakistan for the Earthquake Emergency Assistance Project*. Manila (Loan 2213-PAK[SF], approved in December 2005, for \$300 million).

B. Scope of Services

6. The TA project has three components.

1. Component 1: Community-Based Training on Seismic Standards and Building Techniques

7. This component will finance the recruitment of national consultants to be engaged in conducting (i) inspections of housing reconstruction implemented by individual households, which is the basis for ERRA to release its payments; and (ii) training of the households and community-based organizations on seismic standards and designs, and building techniques. Thus far, 200,000 households have been trained, and the funding to be provided under the TA project will help train at least 50,000 additional households, bringing the total training coverage to about 43% of the damaged or destroyed rural houses.

8. The significant level of noncompliance with the seismic standards and designs prescribed by ERRA highlights the need for such inspection and training. In many cases, the noncompliance is caused by a lack of knowledge about the standards and techniques. In such cases, increased training and inspections will help to improve the compliance ratio.

2. Component 2: Financial Management, Internal Control, and Strategic Management

9. This component will build on the assistance under Capacity Building for the Office of the Auditor General of Pakistan to provide further support in strengthening ERRA's financial management, internal control, and strategic management capacities. Under the above TA, two chartered accountants have been engaged for ERRA, and the engagement of a third is in process. The three accountants, who will be engaged for a year under above TA, will be stationed at ERRA headquarters in Islamabad and its two provincial or state branches—Provincial Earthquake Reconstruction and Rehabilitation Agency (PERRA) for North-West Frontier Province and State Earthquake Reconstruction and Rehabilitation Agency (SERRA) for Azad Jammu and Kashmir. This component will provide additional financing support for the engagement. Other areas of financial and strategic management that might need additional support will be determined through joint assessments of needs to be conducted by ADB and ERRA during the implementation of the Program and the proposed TA project.

3. Component 3: Environmental and Social Protection

10. Under Capacity Building for the Office of the Auditor General of Pakistan, ADB, supported by AusAID, is training the safeguards specialists of ERRA, PERRA, SERRA, and district reconstruction units (DRU) on the national and ADB safeguards regulations, policies, and procedures, as well as on environmental assessment techniques. UNDP finances many of the safeguards specialists. An area that might need further support is social protection and ADB's policies and procedures on involuntary resettlement, indigenous peoples, gender, and protection of vulnerable peoples. This component will finance engagement of a lead social safeguards specialist and other sector specialists, including gender and vulnerable groups specialists, particularly female counselors. The main tasks of this team of specialists include (i) providing assistance to ADB environmental and social protection specialists to conduct training the ERRA safeguards specialists on ADB policies and procedures on involuntary resettlement, indigenous peoples, gender, and vulnerable groups, and on preparation of resettlement plans and indigenous peoples development plans, if needed; (ii) supervising the preparation by ERRA

of resettlement plans and indigenous peoples development plans that will meet the concerned national laws and regulations, as well as ADB's policies; (iii) conducting periodic reviews of safeguard compliance; (iv) supporting the implementation of the gender action plans; (v) supporting ERRA in identifying the location and needs of vulnerable people, and designing and implementing the special assistance program for the vulnerable people; and (vi) preparing updated reports on the status and issues related to environmental and social protection.

C. Staffing

11. For the TA project, 325 person-months of national consultants and 6 person-months of international consultants³ are proposed. In addition, field and technical support staff equivalent to 200 person-months will be recruited. The suggested division of the international and national person-months is tentative and subject to changes in accordance with needs confirmed during implementation. However, any deviations will be budget neutral. The breakdown of the consulting services by the three components will be confirmed during implementation. However, component 1 on inspection and training on seismic standards and building techniques is expected to account for more than half the budget.

D. Implementation Arrangements

12. ERRA will be the Executing Agency for the TA project. However, the TA will include capacity building for all institutions related to earthquake reconstruction and rehabilitation. Special attention will be given to building capacities at the provincial or state and district levels, including PERRA and SERRA, the provincial or state line departments (as the implementing agencies for many earthquake reconstruction subprojects), and the DRUs. The proposed TA project is scheduled to be implemented over 36 months, from July 2007 to July 2010. Administration of the proposed TA project will be delegated to the earthquake team of the Pakistan Resident Mission. The establishment of an advisory committee with representatives of different departments of ERRA, chaired by ADB, is proposed. This committee would (i) provide the Government concurrence on consultants, (ii) approve progress and annual reports, and (ii) provide guidance to the team of consultants. The earthquake team of the resident mission will provide secretariat services to the advisory committee. All consultants will be engaged by ADB in accordance with its *Guidelines on the Use of Consultants* (2007, as amended from time-to-time). Procurement of equipment will be conducted in accordance with ADB's *Procurement Guidelines* (2007, as amended from time-to-time) and other arrangements satisfactory to ADB for procurement.

13. A separate procurement plan has been prepared as a supplementary appendix (available upon request). The TA will be used mostly to support the ongoing training and the environmental and social protection program, which has been conducted by a number of civil organizations, including National Rural Support Programme and Sarhad Rural Support Programme. As such, single-source selection of the consultants is proposed to ensure the continuity of the training, as well as the environmental and social protection programs; and to take advantage of their experience in these activities. Single-source selection also will be conducive for the timely execution of the TA project to support the housing reconstruction program, which is expected to be completed by May 2008.

³ ERRA and ADB may decide to convert the international consulting services into domestic consulting services based on actual needs but such conversion should be budget-neutral.

E. Reporting and Documentation Requirements

14. The advisory committee will endorse the biannual reports prepared by the secretariat before submission to the Government and ADB.

F. Cost Estimates

15. The total cost of the TA is estimated at \$2,500,000. ADB will provide \$2,000,000 from PEF on a grant basis. The Government through ERRA will provide consultants with suitable office space and counterpart staff, local communications, office support staff, and necessary equipment.

Table A5: Cost Estimates and Financing Plan
(\$'000)

Item	Total Cost
A. ADB Financing^a	
1. Consultants	
a. Remuneration, Per Diem and Travel	
i. International ^b	160
ii. National ^c	1,350
2. Training and Workshops	180
3. Communications and Documentation	40
4. Equipment ^d	40
5. Contracts ^e	130
6. Contingencies	100
Subtotal (A)	2,000
B. Government Financing	
1. Office Accommodation and Utilities ^f	100
2. Remuneration and Per Diem of Counterpart Staff ^g	300
3. Others ^f	100
Subtotal (B)	500
Total	2,500

ADB = Asian Development Bank, Government = Government of Pakistan.

^a Financed by the Pakistan Earthquake Fund established and administered by ADB.

^b Short-term international individual consultants (6 person-months) recruited by ADB. ERRA and ADB may decide to convert the international consulting services into domestic consulting services based on actual needs but such conversion should be budget-neutral.

^c Long- and short-term national individual consultants or firms (325 person-months) recruited by ADB.

^d Equipment needed for training and field inspection. Prior approval by ADB is required.

^e Short-term field and technical support staff for data collection and field research (200 person-months).

^f Includes staff from at all the implementing agencies at the federal, province/state, and district levels.

^g Includes training venues (federal, two province/states and eight districts), government resource persons, communications, office supplies, printing, and publishing, etc.

Source: Asian Development Bank.

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

A. Linkages to the Country Poverty Analysis	
<p>Is the sector identified as a national priority in country poverty analysis?</p> <p style="text-align: right;"><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>Is the sector identified as a national priority in country poverty partnership agreement?</p> <p style="text-align: right;"><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>
<p>Contribution of the sector or subsector to reduce poverty in Pakistan:</p> <p>The 2003 Pakistan Poverty Reduction Strategy Paper (PRSP) outlines the three pillars of the Government's poverty reduction strategy: (i) accelerating economic growth, (ii) improving governance, and (iii) investing in human capital. The Program will contribute to the strengthening of all three pillars by providing finance for rural houses reconstruction, and providing support for improving financial management and fiduciary oversight. The PRSP, in particular, recognizes housing as productive activity, because it contributes through a high multiplier effect with a host of beneficial forward and backward links in the economy. The reconstruction of rural houses damaged or destroyed by the earthquake will have additional impact on people's welfare by providing seismically compliant housing. Of the 3.5 million displaced people in North-West Frontier Province (NWFP) and Azad Jammu and Kashmir (AJK), about 1% (or 35,000 people) are still living in tents in camps and the remaining 99% are living in self-built temporary shelters. Worldwide experience suggests that provision of housing shelter is a prerequisite for full economic recovery in disaster relief and reconstruction.</p>	
<p>B. Poverty Analysis Targeting Classification: Target Intervention</p> <p>The area most heavily damaged by earthquake is home to a scattered population of 5.7 million people, with an estimated seven family members per household. About 88% of the people live in the mountains, many of them on steep hills, in settlements ranging from two households to more than 300. A high proportion of the population lacks basic services, clean drinking water, and safe waste disposal. Agriculture and livestock rearing are the primary source of employment in rural areas, with most rural residents engaged in subsistence agriculture. Before the earthquake, relatively smaller portions of the populations of NWFP and AJK were living on less than \$1 per day (i.e., 9.9% in NWFP and 2.5% in AJK, against a national average of 13.9%). However, the earthquake created additional poverty by destroying many assets, such as houses, as well as killing more than 80,000 people and injuring many others (i.e., about 100,000, many of whom are permanently disabled and lost their productive capacities). The earthquake affected a vast area of northern Pakistan, with scattered population settlements and poor road access. This has posed great difficulties for the reconstruction and rehabilitation (R&R) efforts.</p> <p>The Earthquake Reconstruction and Rehabilitation Authority (ERRA) have begun to establish a comprehensive database for the earthquake-affected people. ERRA also has developed a comprehensive Social Protection Strategy. With the assistance of development agencies, including the United Nations Human Settlements Program (UN HABITAT) and ADB, ERRA has conducted a vulnerability survey of the EQAA (2007) to identify the locations and needs of the affected people. The long-term goal is to ensure vulnerable groups are provided with basic social services, livelihood assistance, and support for rehabilitation, primarily within their own families and communities. It also aims to establish links with the mainstream social welfare structures and services at the district level. However, the magnitude of the needs has caused, and will continue to cause, a huge burden for the government, especially at the provincial/state and district level. Continued support from the international communities will be needed for years to come.</p>	
C. Participation Process	
<p>Is there a stakeholder analysis? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>As part of loan processing, a wide range of stakeholders were consulted during loan design. ADB's earthquake team has been conducting routine consultations with relevant Institutional partners, government agencies, and civil society organizations (CSO) during implementation of EEAP.</p>	
<p>Is there a participation strategy? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>ERRA's Social Protection Strategy explicitly focuses on the inclusion and participation by women and extremely vulnerable individuals and families in the design, implementation, and monitoring of reconstruction assistance programs. The nature of the housing reconstruction program, i.e., owner-driven with Government's financial subsidy and guided by ERRA's technical support through training and monitoring, also determines that participation is an integrated and crucial element for the success of the housing program.</p>	

D. Gender Development			
Strategy to maximize impacts on women:			
<p>Women have particularly been challenged after the disaster since their roles have changed drastically—from caregivers and contributors to the family income in a conservative society to household heads and main bread earners for families where the earning male head of household has died or suffered from permanent physical disabilities. Following the earthquake, many women are coping with psychosocial distress and hopelessness. Women have limited access to information and few opportunities to participate in rehabilitation plans and programs. Weakened public health services hinder access to reproductive health care. Customary practices often deny women their right to inheritance and limit their access to property, income, and livelihood options. Given these dynamics, widows and female-headed households in particular need specific outside support in terms of establishing appropriate living arrangements and sources of livelihood within the community that enable them to enjoy protection and to rebuild their family safety net on a new ground.</p> <p>The Program primarily will provide finance for rural housing reconstruction. It will aim to ensure that women will receive the same assistance and compensation as men. The Program will adopt a number of strategies. Technical assistance (TA) will be provided for training on seismic building techniques and designs. More than 200,000 households have been trained. The TA project specifically will ensure that the training will include women, particularly for those households headed by widows. The TA project also will support the survey of vulnerable groups, including widows, to identify their needs and provide special assistance to the vulnerable groups.</p>			
<p>Has an output been prepared? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>			
<p>The Gender and Vulnerability Action Plan (GVAP) in Appendix 7 builds on the Gender and Vulnerable People Action Plans prepared under EEAP, which is in its initial stage of implementation. It aims to ensure that critical needs, constraints, and priorities voiced by women and extremely vulnerable individuals and families—reflected in the design of the Program—are monitored during loan implementation. The GVAP outlines the following relevant activities, targets/indicators to assess: (i) women's and other vulnerable groups' equal access to the benefits, opportunities, and services provided under the rural housing reconstruction (component 1) activities to be funded under the loan; and (ii) ERRA's ability to mainstream gender and vulnerability issues and concerns at all levels—organizationally, in policies, strategies, program planning, implementation, and monitoring and evaluation (M&E) systems to measure/assess gender equality results (component 3). The GVAP will be implemented through ERRA's network of institutional and partner organizations at the provincial/state and district levels. Sex-disaggregated baseline data will be provided by the M&E unit at ERRA at program onset, outlining current status and gender gaps in women's and other vulnerable groups' access to the benefits, opportunities, and services provided under ERRA's housing reconstruction initiatives. Progress in the implementation of the program-specific GVAP will be monitored closely, and progress will be reported quarterly to ADB.</p>			
E. Social Safeguards and Other Social Risks			
Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Resettlement	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	<p>Although the Program needs to find new sites for about 6,000 households, as earthquake-induced landslides destroyed their original sites, the relocation is caused by the earthquake, i.e., internally displaced people, and not by the ADB operation. ADB's policy on <i>Involuntary Resettlement</i> (1995) should not apply to this situation. The Government provides subsidies to the 6,000 households to buy land at market prices.</p>	<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Affordability	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	No such issue with private rural houses built.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Labor	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	The demand for unskilled and skilled labor in the EQAA is huge, particularly for skilled labor for house reconstruction. However, most of private houses will be rebuilt by the households themselves, or with the help of partner organizations at union council level.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Indigenous Peoples	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	The earthquake-affected areas include some tribal communities. The Program is likely to have beneficiary impacts on the tribal communities by constructing seismically compliant houses.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Other Risks and/or Vulnerabilities	<input checked="" type="checkbox"/> Significant <input type="checkbox"/> Not significant <input type="checkbox"/> None	The earthquake has resulted in many extremely vulnerable individuals/families (widows and women-headed households, people with disabilities, orphans, and elderly). ERRA has developed a comprehensive Social Protection Strategy. The GVAP aims to ensure that critical needs, constraints, and priorities voiced by women and extremely vulnerable individuals and families—reflected in the design of the Program—are monitored during loan implementation.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

GENDER AND VULNERABILITY ACTION PLAN

Activities	Targets and Indicators ^a	Responsibility	Time (Month)
Component 1: Rural Housing Reconstruction			
Improving rights and entitlements of vulnerable individuals and families to land and house ownership	<ul style="list-style-type: none"> • Extremely vulnerable individuals and/or families (widow and women-headed households, PWD, orphans, and the elderly) provided with national identification (ID) cards for priority assistance in accessing house reconstruction grant. • Information on compensation, housing, and legal assistance made available to vulnerable individuals and families.^b • Newly constructed houses registered under husband and wife's name. 	ERRA, PERRA, SERRA and DRUs	1-6
Equitable access of women and other vulnerable groups to housing reconstruction	<ul style="list-style-type: none"> • Extremely vulnerable individuals and/or families identified and selected through targeting criteria set by ERRA. • 50% target for the representation of women in village reconstruction committees.^c • Partner organizations at union council level will be engaged to rebuild the houses of extremely vulnerable individuals and/or families, according to the seismic resistance specifications set under ERRA's Housing Strategy guidelines.^d • Barrier-free and/or disability friendly construction for people with disabilities will be encouraged, according to specifications available at the housing reconstruction centers and DRU. • Community-based care options will be identified for long-term support to extremely vulnerable individuals and/or families within their own communities in the rural area. 		1-36
Equitable access of vulnerable individuals and families to housing-related services	<ul style="list-style-type: none"> • 50% target for women participation in technical orientation on housing reconstruction, training in earthquake resistant building techniques, and construction monitoring techniques, if applicable. • 50% target for women participation in nontraditional skills training (i.e., repair of electrical appliances). • 50% representation of women in social mobilization teams for community outreach. 		
Equal and fair payment of house reconstruction grants	<ul style="list-style-type: none"> • Ensure women household heads establish their proper bank accounts with no additional fees for accessing their accounts. • Equal compensation provided to female-headed households. 		

Activities	Targets and Indicators	Responsibility	Time (Month)
Component 2: Capacity Development of ERRA			
Strengthening the commitment of ERRA's Management and line/program managers to gender equality	<ul style="list-style-type: none"> • ERRA's Gender Policy adopted and Gender Coordinators recruited to complement the activities of the Social Protection Coordinators at provincial/state and district levels • Vulnerability Survey of the EQAA carried out (at least twice a year) • Vulnerability Survey of the camp population (2007) to be released to relevant stakeholders and updated periodically (at least twice a year). • 10% representation of women at ERRA's Senior Management Positions (at all levels); 20% representation of women within technical positions at ERRA, SERRA, PERRA • 20% target representation of women within DRUs and DRACs • Strengthening the capacity for collection and analysis of sex-disaggregated data and information at ERRA, at all levels • Training in gender analysis at ERRA 	ERRA, PERRA, SERRA and DRUs	1-36
Enhancing the capacity of actors involved in R&R to assess gender needs and concerns, collecting sex-disaggregated data, carrying out gender analysis and document best practices	<ul style="list-style-type: none"> • Gender Checklists published and distributed • Gender and Reconstruction Fact Sheets published (twice year) • Best practices documented (yearly basis) • Training in gender analysis at provincial and district levels carried out 		
Developing operational procedures for the implementation of priority sector strategies (i.e., housing, education, and social protection)	<ul style="list-style-type: none"> • ERRA's operational procedures for the implementation of priority sector strategies developed by line/program managers and informed by gender considerations, with clearly defined output and outcome indicators • Budget allocated for gender-relevant initiatives in priority sectors • Participatory responses to identified needs ensured through incorporation of gender and vulnerable groups concerns in program design 		
Improving performance measurement of gender equality and vulnerability results	<ul style="list-style-type: none"> • Establishment and functioning of M&E field units at state/provincial levels, effective coordination with ERRA's M&E Unit and timely transmission of relevant disaggregated data and information to all levels and line agencies • KPI monitored with a gender lens • Options for strengthening the planning and management capacity of the Social Welfare Departments in NWFP and AJK identified 		

AJK = Azad Jammu and Kashmir, DRACS = district reconstruction advisory committees, DRU = district reconstruction unit, EQAA = earthquake affected people, ERRA = Earthquake Reconstruction and Rehabilitation Authority, ID = identification, KPI = key performance indicators, M&E = monitoring and evaluation, NWFP = North-West Frontier Province, PERRA = Provincial Earthquake Reconstruction and Rehabilitation Agency, SERRA = State Earthquake Reconstruction and Rehabilitation Agency.

^a Proposed targets/indicators were determined based on consultations with ERRA, at federal and provincial or state level and with other relevant stakeholders during loan appraisal (May 2007).

^b ERRA will establish legal units at each *tehsil*, i.e., the lowest administrative level, to secure public records and address issues related to land entitlements, legal facilitation, and assistance. Legal Assistance activities, funded under ADB's EEAP, will be implemented in EQAA starting the third quarter 2007.

^c Village reconstruction committees allow communities to act as a group for organizing training activities and dealing with housing reconstruction-related activities, such as building material procurement, land dispute resolution, and support for the most vulnerable.

^d Construction support will be provided by arranging labor and conducting frequent supervision visits through partner organization community outreach teams.

Source: Earthquake Reconstruction and Rehabilitation Authority and Asian Development Bank

INITIAL ENVIRONMENTAL EXAMINATION

A. Introduction

1. The 8 October 2005 earthquake that hit northern Pakistan destroyed about 600,000 houses (including 585,000 rural houses and 30,000 urban houses), 6,472 schools, 570 medical facilities, and 1,500 government buildings. The Government has taken an owner-driven, in situ approach to rural house reconstruction. The Government, through the Earthquake Reconstruction and Rehabilitation Authority (ERRA), provides subsidies in four installments to the individual households that are building their own houses based on standards and designs provided by the Government. In 99% cases, the reconstructed houses will be at the original sites. For approximately 1%, or 6,000 houses, the original sites have been destroyed by landslides or deemed seismically unsafe. New sites need to be found for these 6,000 households, or about 35,000 people. Progress in rural housing reconstruction is significant. More than 96% of households have received second installments of finance, and the rural housing reconstruction program is expected to be completed by May 2008.

2. In December 2005, Asian Development Bank (ADB) approved its first project, the Earthquake Emergency Assistance Project (EEAP),¹ to support the Government of Pakistan (the Government) in its earthquake reconstruction and rehabilitation efforts. The project targeted reconstruction and rehabilitation of several infrastructure sectors including transport, energy, education, and health. An initial environmental examination (IEE) was prepared for EEAP, which highlights potential environmental impacts and mitigation measures in the four sectors to be explored further during subproject formulation.

B. Description of the Program

3. The proposed Earthquake-Displaced People Livelihood Restoration Program (the Program) will primarily finance the repairing and reconstruction of rural houses damaged by the earthquake. This IEE will provide scoping and assessment of potential environmental impacts of housing reconstruction, which was not included in the IEE for EEAP.

C. Description of the Environment

4. The environmental conditions of the earthquake-affected areas in North-West Frontier Province (NWFP) and Azad Jammu and Kashmir (AJK) are described in paras. 5 and 6.

5. **Physical and Ecological Environment.** The earthquake-affected areas are in the Himalaya Mountains. Summers are temperate and winters intensely cold. Rain generally falls in two distinct crop-growing seasons—from December to March and from June to September. The three main rivers in the areas are the Jhehar, Kunhar, and Neelum. The areas are known for their high-altitude coniferous and broad-leaved forests and great biodiversity. The landscape is characterized by forests; game reserves; and cold rivers, lakes, and wetlands. About 4% of the land in AJK has been declared protected forest. The Machiara National Park is in the heart of the earthquake-affected area. In NWFP, about 6% of the land is designated as protected with Ayubia National Park located at the periphery of the earthquake-affected zone.

¹ ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Pakistan for the Earthquake Emergency Assistance Project*. Manila (Loan 2213-PAK[SF], approved in December 2005, for \$300 million).

6. **Social, Cultural, and Economic Development.** The area most heavily damaged by earthquake is home to a scattered population of 5.7 million people, with an average of seven family members per household. About 88% of the people live in the mountains, many of them on steep hills, in settlements ranging from two households to more than 300. A high proportion of the population lacks basic services, clean drinking water, and safe waste disposal. Agriculture and livestock rearing are the primary sources of employment in rural areas, with most rural residents engaged in subsistence agriculture.

D. Anticipated Environmental Impacts for Housing Reconstruction and Mitigation Measures

7. The earthquake has caused significant damage to the environmental and ecological resources including fish hatcheries, forests, and rivers, through landslides and siltation. In general, however, no significant adverse environmental impacts are expected from the reconstruction and rehabilitation efforts provided that certain preventive measures are taken. Two environmental issues that are crosscutting to all sectors of reconstruction are related to removal and disposal of debris and rubble, and ways to minimize risks of landslides. Strong efforts should be made to avoid dumping debris and rubble in rivers, along the roads, in open fields, drainage ditches, and forested areas, and to take the landslides risks into consideration when planning for reconstruction.

8. For housing reconstruction, the main potential environmental issues are as follows.

- (i) Reconstruction of rural houses may require a large quantity of timber. This may lead to a round of deforestation which will have adverse impacts on wildlife and biodiversity conservation.
- (ii) Pollution and discharge of domestic wastes caused by improper drainage and inadequate sanitary facilities need to be minimized.
- (iii) The houses are located in seismic “red” zone, e.g., landslides pronged areas.

9. Environmental monitoring conducted by ERRA so far suggests that tree cutting has been kept at very minimal as many households are able to reuse the timbers from the damaged houses. ERRA has also implemented a ban on timber logging. The pollution caused by discharge of residential wastes can be minimized through identifying proper location and design of drainage to ensure that the wastes will not be discharged to rivers and other ecologically sensitive environmental ambience. ERRA is strictly enforcing its seismic zoning regulations to prevent building houses in the “red” zones through inspection and withholding of payments.

E. Environmental Management and Monitoring Plan for Housing Reconstruction

10. Compared with the reconstruction of infrastructure sectors such as roads power plants, housing reconstruction is unique in that it is implemented by individual owners. There was no separate environmental assessment conducted either for housing reconstruction as whole or for individual housing projects. However, ERRA has promulgated a series of design standards and regulations which are designed to ensure the housing construction will meet seismic standards and will not incur serious environmental pollution or damages. Table A7 provides a combined environmental monitoring and management plan. With the support from various development agencies including ADB, this plan is currently being implemented. ERRA’s housing inspectors and its environmental safeguards specialists engaged at various levels have been playing a critical role in the plan implementation and monitoring through conducting training of the

households and inspection of the houses for compliance of the standards. The results of the inspection are the primary basis for releasing payments for housing reconstruction.

F. Public Consultation and Disclosure

11. No specific public consultation was carried out during the preparation of the IEE. However, the public is well informed of the environmental issues and related regulations. There have been ongoing consultations with the affected households through the training programs conducted by ERRA on seismic compliant building techniques and regulations, and environmental regulations. So far more than 200,000 affected rural households have been trained. ERRA has been implementing the identified mitigating measures from the beginning of the housing reconstruction program. The finalized IEE has been published on both ADB and ERRA's websites. Information disclosure should be done in accordance with the relevant provisions of the ADB's public communications policy.¹

G. Findings and Recommendations

12. The program will primarily finance the repairing and reconstruction of the rural houses damaged by the earthquake. No significant adverse environmental impacts are expected from housing reconstruction provided that the recommended mitigation measures are implemented and the results are monitored on a regular basis. The monitoring results so far indicate that the adverse environmental impacts have been less severe than initially expected particularly in terms of deforestation. ADB particularly the earthquake team of the Pakistan Resident Mission should continue to support ERRA in its monitoring of the environmental impacts of the reconstruction program in general and housing reconstruction in particular to ensure both the Government's and ADB's environmental regulations and policies are met and the mitigation measures contained in the Environmental Monitoring and Management Plan are being implemented.

¹ ADB. 2005. *The Public Communications Policy of the Asian Development Bank: Disclosure and Exchange of Information*. Manila.

Table A7: Environmental Monitoring and Management Plan for Housing Reconstruction

Environmental Issues or Concerns	Mitigating Measures	Party Responsible for Implementation	Monitoring Tasks	Party Responsible for Monitoring	Frequency of Monitoring
Some households may dump debris and rubble in rivers, along the roads, in open fields, drainage ditches, and forested areas	Proper disposal of the debris and rubble in designated sites	Individual households	To ensure no large scale waste disposal in environmentally sensitive sites	1. ERRA housing inspectors 2. ERRA environmental specialists	On a regular basis
Reconstruction of rural houses may require a large quantity of timber. This may lead to a new round of deforestation which will have adverse impact on wildlife and biodiversity conservation	1. Reuse the timbers from the damaged houses, 2. Strict enforcement of the logging ban by ERRA.	Individual households	To ensure no massive tree cutting is taking place	1. ERRA housing inspectors 2. ERRA environmental specialists	On a regular basis
Pollution and discharge of residential wastes caused by improper drainage and hygienic designs	1. Selection of the sites to avoid water bodies 2. Proper design of drainage and hygienic systems	Individual households	To ensure the waste discharge from the newly built rural houses is not causing serious pollution to the environment particularly water bodies	1. ERRA housing inspectors 2. ERRA environmental specialists	On a regular basis
The houses are located in seismic "red" zone, e.g., landslides prone areas	1. Strict enforcement of ERRA's seismic zoning regulations and avoid the "red" zone 2. Complete the seismic mapping of the quake-prone areas as required by the World Bank	Individual households	To ensure no houses will be built on landslides prone zones	1. ERRA housing inspectors 2. ERRA environmental specialists	On a regular basis

ERRA = Earthquake Reconstruction and Rehabilitation Authority.

Source: Asian Development Bank.

GUIDELINES FOR LAND ACQUISITION BY PRIVATE HOUSEHOLDS

A. Introduction

1. The proposed Earthquake-Displaced People Livelihood Restoration Program (the Program) will involve land acquisition for both rural house reconstruction. About 1% or 6,000 households have “lost” their land for their houses due to earthquake-induced landslides. While the original land still remains with the ownership of the displaced households, they are no long suitable for reconstructing houses. The Government is providing subsidies for the households to purchase new sites in adjacent areas, at a fixed price of Rs.75,000. The purchase will be conducted freely at market price with no Government intervention. However, to ensure such land purchases and the subsequent house building will not incur excessive and adverse environmental and social impacts, guidelines are needed for the Earthquake Reconstruction and Rehabilitation Authority (ERRA) in providing the subsidies to the displaced households.

B. Policy Framework for Guiding Private Land Purchases for Housing

2. The land purchases by landless for housing reconstruction are guided by two sets of policies. One is the *Financial Assistance Policy and Procedures for Landless* (2007) developed by ERRA with the support of United Nation’s Human settlement Program (UN-HABITAT). The other is the Asian Development Bank’s (ADB’s) innovation and efficiency initiative¹ related to financing land acquisition and right-of-way.

3. ERRA’s policy paper includes the following: (i) defining the beneficiaries of the Government’s landless policy, (ii) describing the policy’s entitlements, (iii) describing the process and institutional arrangements for accessing the benefits, (iv) describing the process and institutional arrangements for addressing grievances related to the implementation of the policy, (v) describing the process of disseminating the policy to the public, (vi) describing the process of training those stakeholders that are involved in implementing the policy, and (vii) describing the process for monitoring the implementation of the policy.

4. For ADB’s loan to finance land acquisition and rights-of-way, ADB requires the assessments focusing on, among others, (i) confirmation of the productive nature of the acquisition; (ii) suitability of land market conditions, including the definition of strategies to deal with any unforeseen distortions; (iii) adequacy of the administrative arrangements, to ensure the

¹ ADB. 2005. *Innovation and Efficiency Initiative: Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach*. Manila.

channeling of funding is done transparently and efficiently; (iv) definition of the risk profile of the transaction, and the type of risk mitigation measures required; and (v) soundness of the monitoring and evaluation arrangements for the purchase and payments for rights-of-way.

C. Checklist for Guiding Land Purchases by Displaced Households

5. A detailed review of ERRA's *Financial Assistance Policy and Procedures for Landless* indicates that the procedures satisfy ADB's requirements (para. 6). In particular, the procedures clearly defined the targeted rural landless as "a person who owned land on 8 October 2005 and is so recorded in the land records or a registered sale deed, and has, as a result of the earthquake, lost whole or part of the land, provided that the land not destroyed is less than 5 marlas."¹ The procedures provide strict restrictions on the location of land to be purchased by landless persons. The choice of land a landless person can purchase for resettlement generally is limited to within union council where he/she owned land before the earthquake, and the union councils adjoining the union council where he/she owned land before the earthquake, provided some other conditions are met. The location constraint is important to limit certain undesirable or adverse impacts of resettlement, including adverse environmental and social impacts. The procedures also prohibit a landless person from selling the newly purchased land within 5 years to limit land speculation and to ensure the land is used for housing reconstruction.

6. While the ERRA procedures are strong in ensuring good governance (i.e., money reaches the targeted beneficiary and will be used for land purchases for housing reconstruction), they could be strengthened by including more explicit environmental and social criteria or conditions. The broad-based checklist provided in this paragraph is centered on environmental, social, and governance-related issues and norms. Some of the items have been embedded in ERRA's policy and procedures. Others should be incorporated more explicitly in the procedures. These may be revised further during implementation as more information is available. The checklist will ensure

- (i) the subsidy will be used for land purchases, and the amount of PRs75,000 is equal or more than what is needed to buy the minimum 5 marla² of land needed to construct a house.
- (ii) no coercion in land acquisition, and that the transactions will be conducted freely at market prices.
- (iii) the sites to be purchased are not in the "red" zone in seismic zoning, which is deemed unsuitable for housing reconstruction.
- (iv) the sites to be purchased will not be located in ecologically sensitive areas, including riverbanks, certain conservation areas, etc.
- (v) the sites to be purchased will not infringe upon certain cultural and religious relics and sites.

D. Implementation

7. The checklist will be implemented in conjunction with ERRA's *Financial Assistance Policy and Procedures for Landless* through ERRA's existing housing inspection and training team. Under the Program, ADB will provide additional support to the team through the attached

¹ Cost Sharing and Eligibility of Expenditure for ADB Financing (2005) under the Innovation and Efficiency Initiative.

² marla = 230 square feet. A survey conducted in February 2007 indicates that the land prices in the earthquake-affected areas vary from PRs1,000 per marla to PRs15,000 per marla.

technical assistance. Payments will be made only if a land purchase by a landless person meets all of these criteria.

E. Monitoring and Evaluation

8. With assistance from development partners, particularly the United Kingdom Department for International Development and ADB, ERRA has established a strong monitoring and evaluation (M&E) wing. The monitoring of the housing reconstruction program, which will be completed by May 2008, is its top priority. ADB will continue assist the M&E wing to enable it to ensure these criteria will be met.