
FRAMEWORK FINANCING AGREEMENT

(National Highway Development Sector Investment Program – Project 1)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 29 October 2005

FRAMEWORK FINANCING AGREEMENT
(PAK: National Highway Development Sector Investment Program)

Background	Pakistan has requested the Asian Development Bank (ADB) to help finance its national highway investment program (the Investment Program). ADB's financial support is to be extended through a multitranche financing facility (the Facility), a new instrument approved by Board of Directors of ADB in <i>Pilot Financing Instruments and Modalities</i> (R194-05, 4 August 2005).
Sector Investment Program	The Sector Investment Program (the Investment Program) is part of the National Highway Development Plan (NHDP) which takes into account the Government's Five Year Medium Term Development Framework 2005-10. The Investment Program covers the 10 year implementation period from 2005/6 to 2014/15. The Investment Program targets critical bottleneck sections of the national highway network. It supports trade, subregional connectivity, reduces transport costs and is part of the Government's poverty reduction agenda. It provides enabling infrastructure to areas currently with poor access to markets and urban towns.
Investment Context	Investments in the national highway network are a key feature of the Government's strategy for the country's sustainable economic growth. The Investment Program itself will be phased over a 10 year period. In addition to physical infrastructure, the Investment Program will also focus on capacity building, especially in relation to planning and financial management, public private sector initiatives, road safety and maintenance matters. Detailed feasibility studies for the Investment Program have been prepared for a number of subprojects; others will be prepared by consultants recruited by NHA.
Investment Plan	The total investment required for the Investment Program will cost approximately \$966.8 million equivalent over a ten-year period.
Financing Plan	The financing plan for the Investment Program includes outlays from (i) ADB (OCR) - \$770.0 million equivalent (79.64%), ADB (ADF) \$3.0 million equivalents (0.31%) and Government - \$193.8 million equivalent (20.05%)
Track Record	In the immediate past three years, ADB has been involved in this sector through previous loans. ¹
Execution	The Executing Agency for the Investment Program will be the National Highway Authority (NHA). NHA will implement the Investment Program in accordance with the principles set forth in Schedule 1 to this Agreement, as may be supplemented in Loan Agreement(s).

¹ Loan 2019-PAK: *Balochistan Road Development Sector* (2003) and Loan Nos 2103/2104: *North-West Frontier Province Road Development Sector and Subregional Connectivity* (2004).

Facility	The maximum financing amount available under the Facility is seven hundred and seventy million equivalent (\$770,000,000). The Facility is intended to co-finance the Investment Program through individual Loans from ADB's ordinary capital resources. ²
Utilization Period	As agreed between PAKISTAN and ADB, the maximum utilization period under the Facility will be 30 June 2015
Terms and Conditions	Each Loan will be used to finance a range of subprojects defined by the Executing Agency. Subprojects will meet pre-agreed eligibility criteria described in Schedule 2 to this Agreement, as supplemented in relevant Loan Agreement(s). The subprojects shall adhere at all times to a set of agreed terms and conditions in the areas of safeguards, technical, commercial, legal, financial, social and economic profiles. The execution of subprojects financed by individual Loans will follow pre-agreed procurement, disbursement, administrative, governance, fiduciary oversight and financial management arrangements. These terms and conditions are set in Schedules attached to this Agreement. The specific details applicable to individual Loans will be documented in the relevant loan agreements.
Periodic Financing Requests	<p>PAKISTAN may request, and ADB may agree, to provide Loans under the Facility to finance a part or all of Investment Program and its related subprojects upon the submission of a Periodic Financing Request (PFR). Each PFR will be submitted by PAKISTAN and all such submissions will be as acknowledged by NHA as the Executing Agency for the Investment Program. PAKISTAN will make available to NHA, the proceeds of the requested Loans in accordance with the terms set forth in the applicable PFR, Loan Agreement and Project Agreement(s).</p> <p>Each individual Loan shall be for an amount greater than one hundred million dollars (\$100,000,000), or its equivalent. ADB will review each PFR and, if found satisfactory, prepare the related Loan and Project Agreement(s).</p>
Procedures	<p>Loans to be provided under the Facility will be subject to following procedures and undertakings:</p> <p>(a) PAKISTAN will have notified ADB of a forthcoming PFR at least 15 days in advance of the submission of a PFR.</p> <p>(b) PAKISTAN will have submitted a PFR in the format as agreed with ADB.</p>

² Provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, would apply to each Loan, subject, to modifications, if any, that may be included under any Loan Agreement (said Ordinary Operations Loan Regulations as so modified, if any, being hereinafter called the Loan Regulations).

**PFR
information**

The PFR will be submitted via an agreed report format and include, but will not be limited to, the following details:

- (i) Loan Amount Request;
- (ii) Indicative list of subprojects to be financed under the Loan;
- (iii) Cost estimates and financing plan;
- (iv) Implementation Arrangements;
- (v) Confirmation of the continuing validity of and adherence to the provisions of this Agreement;
- (vi) Confirmation of compliance with the provisions under previous Loan Agreement(s) and Project Agreement(s), as appropriate;
- (vii) Other information as may be required under the Facility Administration Memorandum to be prepared and agreed between ADB and the Government to facilitate implementation and processing of the Facility and related PFRs (FAM).

Safeguards

All ADB safeguard policies, as may be amended from time to time, shall apply to all the subprojects financed under the Facility. ADB safeguard policies include (i) Involuntary Resettlement Policy, 1995, (ii) Policy on Indigenous People, 1998, and (iii) Environment Policy, 2002.

Procurement

All goods and services to be financed under the Facility shall be procured in accordance with ADB's Guidelines for Procurement, November 2004, as may be amended from time to time.

All consulting services to be financed under the Facility shall be procured in accordance with ADB's Guidelines on the Use of Consultants, January 2005, as may be amended from time to time and other arrangements satisfactory to ADB for the engagement of domestic clients.

Disbursements

Disbursements will be made in accordance with ADB's Loan Disbursement Handbook, 2001 and ADB's Interim Guidelines for Disbursement Operations, LIBOR-Based Loan Products, 2002, each as may be amended from time to time.

ISLAMIC REPUBLIC OF PAKISTAN

By [Original Signed]
Najma Siddiqi
Joint Secretary
Economic Affairs Division

ASIAN DEVELOPMENT BANK

By [Original Signed]
Kunio Senga
Director General
South Asia Department
Asian Development Bank

ACKNOWLEDGED:

NATIONAL HIGHWAY AUTHORITY

By [Original Signed]
Raja Nowsherwan Sultan
Member Planning
National Highway Authority

Signed in Manila on 29 October 2005

SCHEDULE 1

IMPLEMENTATION OF INVESTMENT PROGRAM

1. Unless otherwise stated in any of Loan or Project Agreements entered into by ADB and Pakistan under the Facility, the Investment Program shall be implemented as follows:

Implementation Arrangements

2. To facilitate effective implementation of the Investment Program, the Government shall cause NHA to establish an Investment Program coordinating committee chaired by Chairman, NHA and comprising NHA executive Board members, to monitor and oversee overall project implementation. NHA shall establish two project management units: (A) one for implementation of the national highways improvement component and the other for (B) implementation of institutional strengthening of NHA.

Road Maintenance

3. The Government shall provide adequate and timely funding for proper maintenance of the National Highway Network roads. Any increases in the actual amounts to be provided shall be met through additional budget allocations, or other alternative sources of financing.

4. NHA shall develop in consultation with ADB and have its Executive Board approve a road maintenance plan for the year Fiscal Year 2007-2011 by 31 March 2007, which shall, among other things, provide funding modalities to finance the maintenance of relevant roads acceptable to ADB.

Land Acquisition and Resettlement

5. NHA shall ensure that land acquisition and resettlement proceed in accordance with applicable laws, and *ADB's Policy on Involuntary Resettlement*, as well as in accordance with the resettlement framework and resettlement plans for pre-selected sample subprojects and other remaining subprojects.

6. NHA shall (i) prepare and implement resettlement plans for additional subprojects, in accordance with ADB's Policy on Involuntary Resettlement and the principles and procedures laid out in the resettlement framework and agreed between the Government and ADB, (ii) disclose subproject resettlement plan to Affected Persons (APs) in a form and language easily comprehensible to APs prior to submission to ADB for review and approval before award of the related civil works contracts or a similar milestone, (iii) monitor and submit the quarterly progress and completion reports on land acquisition and resettlement, (iv) appoint an independent monitoring expert prior to commencement of land acquisition and resettlement activities and ensure that reports are simultaneously submitted to NHA and ADB.

7. The resettlement budget shall be revised based on any new data collected, and any additional land acquisition and resettlement cost that may be required shall be borne by the Government. If there is any change in the scope of the Project, the resettlement plans shall be revised and submitted for ADB approval prior to award of civil work contracts.

8. NHA shall ensure that (i) compensation for land and structures shall be provided to APs in full at replacement value including financial assistance/grants, if any, prior to taking possession of their assets; and that essential public infrastructure affected by land acquisition and resettlement are replaced appropriately and expeditiously; (ii) acquire or make available on

a timely basis (i.e., strictly in accordance with the schedule as agreed under the related civil works contract) the land and rights in land, free from any encumbrances, and (iii) clear the utilities, trees and any other obstruction from such land, on a timely basis (i.e., strictly in accordance with the schedule as agreed under the related civil works contracts), as required for construction activities relating to each section of the related civil works contract under the Project.

Investment Program Performance Monitoring and Progress Reports

9. NHA shall establish a capability for systematic project performance monitoring and analysis throughout the life of the project, integrated with their management information system. Initially, a baseline for performance monitoring shall be established and thereafter, surveys shall be conducted annually. The scope of the survey, quantity and quality of data, and frequency for collection shall be guided primarily by the project management's need for progressive rapid feedback on implementation status, as well as early warning of impending situations that might jeopardize attainment of the development objectives. The Key Indicators and Assumptions outlined at the purpose and goal levels in the Design and Monitoring Framework shall form the core of the data required for rapid assessment.

10. NHA shall prepare and submit to ADB monthly and quarterly progress reports on the subprojects' implementation, the form and content of which shall be agreed with ADB. NHA shall monitor project preparation and implementation in accordance with the implementation schedule, and shall keep ADB informed of any significant deviations from the schedule. The quarterly report shall summarize the information in the detailed reports, including basic data, utilization of funds, achievement of immediate development objectives, compliance with covenants, implementation progress, environment, land acquisition, resettlement progress, implementation EMP, and major issues and problems.

11. Within three (3) months of physical completion of the Investment Program subprojects, NHA shall furnish to ADB a project completion report providing a detailed evaluation of the subproject design, costs, contractors' and consultants' performance, environment, social and economic impact, economic rate of return, environment, and other details as may be requested by ADB.

Review

12. In addition to regular reviews by ADB staff, the Loan Agreement shall include a requirement that there be a detailed midterm review of the subprojects. Based on the subproject schedule, this shall be carried out around midway through the physical implementation period. Two months prior to the midterm review the Government shall submit to ADB a detailed progress report on the subproject implementation. The terms of reference for the subprojects midterm review shall be included in the Facility Administration Memorandum to be prepared by ADB's inception mission for the Project.

Accounts

13. NHA and the PIUs shall maintain separate subproject records and accounts adequate to identify the goods and services financed from the proceeds of the Loan, the financing resources received, the expenditures incurred for the subproject, and use of local funds. These subproject accounts and related financial statements shall be audited annually in accordance with sound auditing standards by an independent auditor acceptable to ADB. NHA shall submit annual audited reports and related financial statements to ADB within six months after the end of each fiscal year. The audit of the Imprest account and Statement of Expenditure (SOE) shall be

carried out as part of the regular annual audit. The auditor's opinion of the examination of Imprest account and SOE should be separately set out in the auditor's report.

SCHEDULE 2

SELECTION CRITERIA AND APPROVAL PROCESS FOR SUBPROJECTS

**Subproject
Selection
Criteria**

Selection and preparation of subprojects will be the responsibility of NHA. The following criteria will apply in selecting subprojects intended for financing under the Facility:

- (i) The subprojects will be part of the NHA's National Highway Development Plan and any subsequent changes thereafter and/or with approved PC-1 with priority given to the subregional connectivity corridors except as otherwise agreed to by the Asian Development Bank (ADB).
- (ii) The subprojects will be technically sound, and a feasibility study and detailed design will have been prepared. The National Highways Authority (NHA) will ensure that the detailed subproject report will be prepared within no more than 5 months of subproject approval. Road safety audit will be conducted during project design.
- (iii) The subprojects will be economically and financially feasible, and their estimated economic internal rate of return equal to or higher than 12%, based on the economic analysis to be conducted in accordance with ADB's *Guidelines for the Economic Analysis of Projects*.
- (iv) Environmental screening in accordance with ADB's 2003 *Environmental Assessment* Guidelines will be conducted for all subprojects. The subprojects will not pass through or be within or less than 1 kilometer (km) from protected areas as designated by the Government, including sanctuaries or national parks. For each subproject, an environmental assessment report will be prepared, including an environmental management plan, in accordance with the Environmental Assessment and Review Framework.
- (v) The subprojects will be socially sound and include measures to mitigate any possible social impacts. For each subproject, an initial poverty and social assessment will be conducted in accordance with ADB's *Guidelines on Initial Poverty and Social Assessment*.
- (vi) Resettlement plans for the subprojects will be prepared in accordance with the resettlement framework and ADB's policy on involuntary resettlement.
- (vii) If any indigenous peoples or scheduled tribes are likely to be affected significantly by a subproject, an indigenous people's development plan or special action will be prepared following the measures set forth in the indigenous people development framework.
- (viii) All necessary federal and provincial government approvals will be obtained.
- (ix) Sufficient Government counterpart funding will be allocated to implement the subprojects.

Procedures

Each subproject will be prepared and processed in accordance with the following procedures:

- (i) A feasibility study for subprojects will be conducted by consultants engaged by NHA, who will fill out checklists for initial poverty and social assessment, involuntary resettlement, indigenous people, and environmental screening. These documents will be sent for review to ADB, which may require revisions.
- (ii) Upon completion of the detailed design, NHA will prepare and submit to ADB a summary appraisal report for each subproject, together with the required attachments, including a resettlement plan, environmental assessment, summary poverty reduction and social strategies, and indigenous people development plan or special action if required.
- (iii) NHA will translate into the local language each subproject resettlement plan and disclose it to the affected people before submitting it to ADB. NHA will revise the resettlement plan if required, based on comments from the affected people and ADB.
- (iv) NHA will disclose each subproject summary environmental assessment for "A" category project to the public 120 days before submitting it to ADB.
- (v) ADB will review the summary appraisal reports, together with the required attachments. If it finds that the subproject does not satisfy eligibility criteria and procedures, or does not comply with ADB's policies, ADB may advise NHA to modify the subprojects. In addition, NHA will prepare draft PC1 reports and simultaneously forward them with the appraisal reports to ADB.

Based on ADB's approval, and subject to any modification and remedial measures required by ADB, NHA will implement the subprojects. NHA will ensure that ADB has access to all documents related to the subproject proposals and approval process. These documents should be kept for 5 years after approval

Organizational Arrangements

NHA will appraise the subprojects, while ADB will advise NHA to comply with the eligibility criteria and procedures and to follow other relevant policies.

The project management office, assisted by the technical audit team (formed from experts within the Project Management Office and NHA) will process the subprojects for quality control of subproject preparation and contract implementation. This team will review and examine all technical reports, including feasibility studies, preliminary design reports, environmental assessment reports, Resettlement Plans, and detailed design reports, to ensure that Government and ADB requirements are fully met.

The technical audit team will evaluate the viability of each subproject and prepare a summary appraisal report to be submitted to ADB for approval. This report will require clearance from Chairman, NHA before it is submitted to ADB along with all necessary attachments.

SCHEDULE 3

APPLICATION OF ADB SAFEGUARD POLICIES

Environmental Considerations

1. NHA shall implement mitigation measures and Environmental Monitoring Plan (EMP) for the sample sub-projects as described in the IEE, EIA and SEIA reports in accordance with the Government and ADB's Environmental Policies. NHA shall implement the Environmental Assessment and Review Framework for the follow up sub-projects in the Investment Program.
2. NHA shall obtain all necessary environmental statutory clearance such as environmental clearance, forest clearance, and non-objection certificates both at the Provincial and Central levels prior commencing any civil work. NHA shall ensure that all conditions attached to these clearances shall be implemented and monitored. NHA shall undertake environmental monitoring plan and submit semiannual report to ADB and relevant agencies on the implementation of EMP and conditions of clearance for "A" category sub- projects and annual report for "B" category sub-projects as part of the progress report on the implementation of the Investment Program subprojects.
3. NHA shall report to ADB any change of road alignment or "as change" in subproject component that occurs after the environmental impact assessment report was approved by the ADB. ADB's prior approval shall be required before putting into effect any such changes, where in the opinion of the ADB, additional environmental assessment shall be made. NHA shall prepare a semi-annual report on implementation of the EMP as part of the progress reports on implementation of the Investment Program subprojects.
4. NHA shall provide the contractors with the environmental assessment study reports including the EMP, and ensure that the contractors implement the mitigation measures and EMP as described in these reports. NHA shall update the EMP for Muzaffargarh Bypass as part of the detail engineering work and submit it to ADB for review prior to commencing civil works.

Social Impacts

5. NHA shall ensure that civil works contracts under all the subprojects incorporate provisions requiring contractors to (i) carry out HIV/AIDS and women/children trafficking awareness and prevention programs for labor; (ii) not employ or use children as labor; and (iii) follow and implement legally mandated provisions on labor (including equal pay for equal work), health, safety, sanitation, and working condition. NHA shall engage qualified locally based consultants under construction supervision to carry out the HIV/AIDS prevention and anti-trafficking component as agreed on with ADB. PIUs shall supervise the consultants and work closely with the Pakistan's National AIDS Control Program (NACP) and other networks dedicated to preventing sexually transmitted infections, HIV/AIDS, women/children trafficking, and to the empowerment of women and children.
6. The Government shall cause NHA to ensure that the civil works contractors comply with all applicable labor laws and regulations and do not employ child labor in the construction activities. The Government shall cause NHA to encourage civil works contractors to hire women and minorities, including "gypsies", wherever possible. The Government shall ensure that NHA provides equal opportunity for women for road construction activities, as well as require

contractors not to differentiate wages between men and women for work of equal value. The Government, through NHA shall ensure that a specific clause to this effect is included in all relevant bidding documents, and compliance is strictly monitored and documented during Investment Program implementation. Recognizing the challenges in recruitment of women for such employment, a reputable private organization shall be appointed to independently monitor, develop suggestions and guidelines for improvement of performance in each of these areas and on an quarterly report on all such matters to ADB through the NHA.