



# Report and Recommendation of the President to the Board of Directors

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Project Number: 44372  
March 2011

## Proposed Loans and Technical Assistance Grant Islamic Republic of Pakistan: Flood Emergency Reconstruction Project

Asian Development Bank

## **CURRENCY EQUIVALENTS**

(as of 25 February 2011)

Currency Unit	–	Pakistani rupee/s (PRe/PRs)
PRe1.00	=	\$0.0117
\$1.00	=	PRs85.45

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
DNA	–	damage and needs assessment
EAL	–	emergency assistance loan
ICB	–	international competitive bidding
km	–	kilometer
LIBOR	–	London interbank offered rate
NCB	–	national competitive bidding
PAM	–	project administration manual
PMC	–	project management consultant
TA	–	technical assistance
UN	–	United Nations

## **NOTE**

In this report, "\$" refers to US dollars.

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## PROJECT AT A GLANCE

<b>1. Project Name: Flood Emergency Reconstruction Project</b>				<b>2. Project Number: 44372</b>	
<b>3. Country: Pakistan</b>			<b>4. Department/Division: Central and West Asia Department</b>		
<b>5. Sector Classification</b>	Sectors		Primary	Subsectors	
	Multisector		<input checked="" type="checkbox"/>		
				Road transport	
				Irrigation and flood management	
<b>6. Thematic classification</b>	Themes		Primary	Subthemes	
	Growth		<input checked="" type="checkbox"/>		
	Social Development				
<b>6a. Climate change impact:</b>			<b>6b. Gender Mainstreaming</b>		
Adaptation		<input checked="" type="checkbox"/>	Gender equity theme		
Mitigation			Effective gender mainstreaming		<input checked="" type="checkbox"/>
			Some gender benefits		
			No gender elements		
<b>7. Targeting Classification</b>			<b>8. Location impact:</b>		
General Intervention	Targeted Intervention			Rural	
	Geographic dimensions of Inclusive growth	Millennium Development Goals	Income poverty at household level	Urban	
				National	<input checked="" type="checkbox"/>
				Regional	
<input checked="" type="checkbox"/>					
<b>9. Project Risk Categorization:</b>					
<b>10. Safeguard categorization</b>					
		Environment	B		
		Involuntary resettlement	A		
		Indigenous peoples	C		
<b>11. ADB Financing:</b>					
		<b>Sovereign/Nonsovereign</b>	<b>Modality</b>	<b>Source</b>	<b>Amount (\$ million)</b>
		Sovereign	EAL	Asian Development Fund	50
		Sovereign	EAL	Ordinary capital resources	600
		Total			650
<b>12. Cofinancing:</b> Not available at present					
<b>13. Counterpart financing:</b>					
		Source		Amount (\$ million)	
		Government of Pakistan		\$72	
<b>14. Aid Effectiveness:</b>					
		Parallel project implementation unit		<input checked="" type="checkbox"/>	
		Program-based approach		<input checked="" type="checkbox"/>	

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) proposed loans to the Islamic Republic of Pakistan for the Flood Emergency Reconstruction Project, and (ii) proposed technical assistance (TA) for Capacity Building for the Flood Emergency Reconstruction Project.<sup>1</sup>

2. The project will finance the rehabilitation and reconstruction of facilities damaged during the floods in mid-2010. The reconstruction targets transport (roads and bridges) and irrigation facilities, including drainage and flood protection. The project follows priorities described in a damage and needs assessment report (DNA)<sup>2</sup> prepared by the Asian Development Bank (ADB) and the World Bank in 2010, in close coordination with federal and provincial government agencies and several development partners (including agencies from the European Union, Germany, Japan, the United Kingdom, and the United States). The project is aligned with the flood reconstruction plan recently prepared by the Planning Commission. The project focuses on the transitional phase of emergency response for the rehabilitation and reconstruction of priority infrastructure.

## II. THE EMERGENCY ASSISTANCE

### A. Rationale

3. **Damage.** The floods of mid-2010 affected 20 million people and caused 1,600 deaths. Basic transport infrastructure and irrigation facilities were badly damaged. The same happened to health and education centers, housing, agriculture, livestock, fisheries and livelihoods. Eighty of the 110 districts across Balochistan, Khyber Pakhtunkhwa, Punjab, and Sindh were all seriously affected. About one fifth of the country was under floods. The total damage is estimated at \$10 billion.

4. **Government's response.** The government's response followed three phases: (i) rescue and relief, (ii) early recovery (temporary restoration), and (iii) reconstruction and rehabilitation. The first phase was handled by national agencies. The work was swift and well-coordinated, especially by the National Disaster Management Authority. External assistance (financial and in-kind) was mobilized quickly and from a wide range of sources,<sup>3</sup> including the United Nations (UN) and leading nongovernment organizations. The UN launched a \$2-billion appeal, raising \$1.3 billion. This first phase of the response is now practically over with most of the affected people back in their villages, except small pockets of Khyber Pakhtunkhwa and parts of Sindh.

5. Early recovery phase started immediately after the floods subsided. The government's plan was to quickly and effectively restore services, and provide temporary housing and grants for restoring agriculture and basic livelihoods. This second phase involved federal and provincial governments and major national organizations, including those from the private sector. The scale of work delayed the permanent reconstruction works (third phase) but this was necessary and inevitable. The early recovery response was structured primarily on an unconditional cash transfer program targeting some 20 million people displaced by floods. This program was complemented by an appeal to international donors to extend new or additional financial resources in the form of grants, channeled through the national budget. The objective was to react quickly through quick-disbursing facilities. The support under the program itself amounts to PRs40,000 per family, with a first tranche of PRs20,000 made available soon after the floods.

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<sup>1</sup> The design and monitoring framework is in Appendix 1.

<sup>2</sup> ADB and World Bank. 2010. *Pakistan Floods 2010: Preliminary Damage and Needs Assessment*. Islamabad.

<sup>3</sup> ADB provided a \$3 million grant from the Asia Pacific Disaster Relief Fund for the first phase requirements.

The remaining PRs20,000 have been directed at families with damaged houses.<sup>4</sup> About \$340 million have already been disbursed by the government for this purpose (from its own budget) and an additional \$600 million were pledged by international donors including Italy, the United Kingdom, the United States, and the World Bank at the Development Forum held in Islamabad in December 2010. Several of these donors (including the World Bank) are now close to completing due diligence work, as well as fiduciary and fund flow arrangements, in support of the program. ADB is not part of this cash transfer program but, at the time of the floods, pledged \$2 billion (over a 4-year period) to help with the emergency, focusing on restoration of priority services and related infrastructure reconstruction—often the more complex and difficult part of the effort to finance. The World Bank pledged \$1 billion. ADB also proposed the establishment of a trust fund to raise grant money from donors interested in the reconstruction phase. ADB expanded its Trade Finance Program to Pakistan by \$500 million, providing extra cover to emergency imports during the reconstruction period and beyond. The focus by ADB on infrastructure is based on the government's request, its experience and track record in this area. Housing, livelihoods, and other early recovery operations were to be handled by the government and World Bank in collaboration with other donors.

6. The third phase of the response focuses on the reconstruction and rehabilitation of priority physical assets. Work is underway in all provinces but the task is well short of being fully accomplished. Sindh is, by far, the worst affected province, with Punjab and Khyber Pakhtunkhwa following suit. Balochistan has much less damage than the others. Fund mobilization and initial reconstruction, including the rebuilding of schools and medical facilities, are fairly advanced in Punjab and Khyber Pakhtunkhwa, but less so in Sindh. This is mainly on account of an earlier start by the two provinces and a more successful fund-raising program from donors and internal reallocation. A number of these donors had a presence in these two provinces before the floods. This made the approval and channeling of funds easier, adding new money via the existing programs. The scale of the damage and the corresponding financial burden on Sindh has been higher from the outset. While Sindh was as responsive as the other provinces, its reconstruction was likely to lag because of scale and time. The floods spread into Sindh after subsiding elsewhere. Some parts of the province still have standing water today.

7. Funding for the third phase has become an issue. The national and provincial budgets were tapped to deal with first, second, and part of the third phase of the response. However, these budgets are constrained. Third phase investments are also more substantial and take longer to execute. Further, although bilateral agencies were generous and timely with their response, most tend to traditionally focus first on relief and early recovery work. Multilateral banks are traditionally more active in the longer-term reconstruction effort. However, the funding offered by ADB and the World Bank at the start of the disaster was not taken up by the government at the time, due to two considerations: (i) priority to relief and early recovery, and (ii) emphasis on raising as much new grant money first as possible. Although the decision not to proceed with multilateral bank finance has delayed third phase reconstruction work, in general terms, the response to the floods by the government during the first two phases can be considered responsive. This required the resources and time of many agencies. There is no doubt that the focus on relief and early recovery saved many lives. The urgent task now is to plan, organize, and execute well the rehabilitation and reconstruction of damaged infrastructure both in terms of the immediate needs of restoring critical priority infrastructure (focus of the project) and other longer-term reconstruction needs. In this sense, the emergency situation is still very much a reality.

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<sup>4</sup> Although the DNA recommended PRs100,000 for each of the 1.2 million damaged or destroyed houses and higher subsidy for another 400,000 damaged houses requiring multi-hazard resistant reconstruction.

8. **Damage and needs assessment.** The DNA was completed within three months by October 2010. The most immediate and medium-term requirements are estimated at just below \$9 billion (Table 1). The Council of Common Interests,<sup>5</sup> chaired by the Prime Minister of Pakistan and comprising chief ministers of all provinces, approved the DNA in November 2010. The council mandated that the DNA be implemented by the Planning Commission at the national level, and by planning and development departments in provinces. An independent National Oversight Disaster Management Council with representation from civil society was tasked with progress monitoring and reporting. Transport and irrigation combined are the largest items in terms of needs (close to \$3.3 billion). Housing follows with \$2 billion. Education needs are around \$500 million. Agriculture and livelihoods together account for \$1.5 billion. With the exception of irrigation, the floods hit Sindh the hardest.

**Table 1: Short- and Medium-Term Reconstruction Needs in Major Sectors**  
(\$ million)

Region/Subsector	Federal	Khyber Pakhtunkhwa	Punjab	Sindh	Balochistan	Other Regions	Total
Transport	616	520	271	675	70	203	2,356
Irrigation, drainage, and flood sector	19	600	51	211	46	56	982
Health	0	16	5	22	2	3	49
Education	0	53	140	269	15	28	505
Housing	0	488	365	1,012	310	30	2,206
Other sectors							2,817
<b>Total</b>	<b>635</b>	<b>1,678</b>	<b>832</b>	<b>2,189</b>	<b>443</b>	<b>321</b>	<b>8,915</b>

Source: ADB and World Bank. 2010. *Pakistan Floods 2010: Preliminary Damage and Needs Assessment*. Islamabad

9. **Highways, roads, and bridges.** National roads and bridges were the worst affected, followed by more than 20% of the provincial road network damaged in Sindh and Khyber Pakhtunkhwa. About 793 kilometers (km) of national highways (7% of the network), including bridges, need urgent repair to ensure their stability and public safety. About 24,000 km of provincial highways and many smaller access roads (representing 12% of the total provincial road network) are in bad shape.

10. **Irrigation infrastructure.** About 90% of crop production in the country is based on irrigated agriculture. Khyber Pakhtunkhwa is the most affected, followed by Sindh, Punjab and Balochistan. The damages resulted from breaches in flood embankments along the Indus River. In Khyber Pakhtunkhwa, over 5,700 irrigation structures were broken and a major headworks washed away. In Sindh, the major command area was inundated, affecting water sources to 1.5 million hectares. Punjab's irrigation system damage was less extensive. However, its impact on the country's overall agriculture output is substantial since Punjab accounts for 72% of the total crop area and 74% of the national production.

11. **Agriculture and livelihood.** Over 2.1 million hectares of standing crop (slightly less than 10% of total cultivable land), about 1.5 million livestock and 10 million poultry perished. The floods also destroyed water sources, food and seed storages. The wheat planting season was missed in some parts and, for land planted, the next harvest may only be in the spring of 2012. Women earning income from livestock, harvesting and home-based industries were badly affected. The agriculture sector is expected to shrink 2% in 2011. An estimated 6 million people are already temporarily unemployed. About 25% of the affected population is still dependent on

<sup>5</sup> Formed in 2010 to coordinate Federal-Provincial fiscal and administrative relations, among other matters of common interest.



food aid. About 1.7 million households with houses partly or completely damaged are being helped by the government.

12. **The borrower's request.** The government has requested ADB in February 2011 for an emergency assistance loan (EAL) with a 3-year implementation period to be completed before March 2014, for restoring priority infrastructure. The government's request was processed in 8 weeks, compared to 12 weeks provided for EAL processing after a disaster. ADB's Operations Manual<sup>6</sup> states that a proposed EAL must have an implementation period set normally up to 2 years for natural disasters and may be exceptionally extended for, at most, two additional years when the level of destruction and dislocation are deemed extreme. Since the flood was one of the largest in world history, the proposed 3-year project implementation period is reasonable.

## B. Impact and Outcome

13. The project impact will be economic and social recovery. The outcome will be the restoration and reconstruction of critical infrastructure to safer standards to restore livelihoods and access to markets. This affects people and businesses.

## C. Outputs

14. The project will rehabilitate and reconstruct national and provincial roads and bridges, as well as irrigation, flood protection and drainage infrastructure in the Province of Sindh. The focus by ADB on these two areas follows a government request. It takes into account work already underway in other areas of the country and the finance already raised from other development partners. These two sectors fit well with ADB's own project experience and track record in Pakistan. The two sectors are also priorities under the country partnership strategy.<sup>7</sup>

15. The project will rehabilitate or reconstruct 793 km of national highways and bridges and 800 km of provincial roads and bridges in eight districts in Sindh—where required—to safer and better standards. These investments will reestablish interregional connectivity. Where justified and cost effective, selected infrastructure will be upgraded to better standards (build back better). The project will improve 1.5 million hectares of agricultural land by restoring, strengthening, and resectioning various flood protection embankments, and rehabilitating main canals, distributaries, minor canals and drainage infrastructure. The National Disaster Management Authority is developing a multi-hazard risk map and related management plan.

## D. Investment and Financing Plans

16. The investment proposed under the project is estimated at \$722 million.

**Table 2: Indicative Sector Investment Requirements for the Project**  
(\$ million)

Item	Federal	Sindh	Total
<b>A. Base Cost</b>			
1 Roads and bridges	256	118	374
2 Irrigation and flood infrastructure		209	209
<b>Subtotal (A)</b>	<b>256</b>	<b>327</b>	<b>583</b>
<b>B. Contingencies</b>	39	49	88
<b>C. Taxes, Duties, and Financing Charges</b>	22	29	51
<b>Total</b>	<b>317</b>	<b>405</b>	<b>722</b>

Source: Asian Development Bank estimates.

<sup>6</sup> ADB. 2004. Disaster and Emergency Assistance, *Operations Manual*. OM Section D7/BP. Manila.

<sup>7</sup> ADB. 2009. *Country Partnership Strategy: Pakistan, 2009–2013*. Manila.

17. The government has requested (i) a loan of \$600 million from ADB's ordinary capital resources (OCR), and (ii) a loan in various currencies equivalent to SDR 31,704,000 (equivalent to \$50 million) from ADB's Special Fund resources (Asian Development Fund [ADF]) to help finance the project. The ordinary capital resources loan will have a term of 32 years, including a grace period of 8 years, an annual interest charge determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year (the interest and other charges during construction to be capitalized in the OCR loan), and such other terms and conditions set forth in the draft loan and project agreements. The ADF loan will have an interest charge at the rate of 1% per annum (interest during construction to be capitalized in the ADF loan), a term of 40 years, including a grace period of 10 years; repayment of principal at 2% per annum for the first 10 years after the grace period and 4% per annum thereafter, and such other terms and conditions set forth in the draft loan and project agreements. The government will contribute \$72 million out of its own resources towards the project to cover taxes, duties, financing charges and will also finance the land acquisition and resettlement costs. The ADF loan will be exclusively used to finance civil works under the irrigation sector component in Sindh. The government has provided ADB with (i) the reasons for its decision to borrow under ADB's LIBOR-based lending facility based on these terms and conditions, and (ii) an undertaking that these choices were its own independent decision and not made in reliance on any communication or advice from ADB.

**Table 3: Financing Plan**

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank	<b>650</b>	90.0
Ordinary capital resources loan	600	83.0
Asian Development Fund loan	50	7.0
Federal and provincial governments	72	10.0
<b>Total</b>	<b>722</b>	<b>100.0</b>

Source: Asian Development Bank estimates.

## **E. Implementation Arrangements**

18. **Principles.** The project will follow five principles: speed, efficiency, building back better and safer, transparency, and accountability. The National Highway Authority (NHA) and the Sindh PDD are the project executing agencies. The implementing agencies are NHA at the national level, and the Works and Service Department, and Irrigation Department of the Sindh Province. The project will be implemented over three years. Details are in the project administration manual (PAM).<sup>8</sup>

19. **Subprojects.** A list of likely subprojects is provided in the PAM. Each of these subprojects will undergo extensive reviews and third party validation including technical audit for design and construction supervision. Criteria to be met include adherence to safeguards rules and technical and economic viability. A special committee at each implementing agency will approve individual subprojects. After this approval, the subprojects (including those retroactively financed) will be submitted to ADB for post review in the case of contracts costing below \$5 million, and prior review for contracts costing above \$5 million.

20. **Project management and supervision.** The procurement of goods, works and services will follow ADB's Disaster and Emergency Assistance Policy, as well as ADB's Procurement

<sup>8</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Guidelines (2010, as amended from time to time), and ADB's Guidelines on the Use of Consultants (2010, as amended from time to time). Experience shows that efficiency, streamlined decision-making, and sound communications among all players are key success factors in emergency situations. The proposed implementation arrangements are backed by strong fiduciary oversight and grievance redress mechanisms for both people and contractors. Independent consultants will be hired and placed in all the implementing agencies to help with this work. Procurement specialists hired under the TA for each implementing agency will be represented in the contract awards and bid approval committees (as observer) to ensure transparency. Key project implementation data will be placed in a dedicated website. The Federal and Sindh Public Procurement Regulatory Authorities will provide additional transparency. Project management consultants (PMCs) will be appointed to oversee the preparation of designs, bidding documents, evaluations of proposals, the awards, negotiations and later the execution of contracts. Audits will be conducted on a regular basis. The Pakistan Resident Mission of ADB will oversee the implementation of the emergency program and launch review missions every 3 months during the first year. A project unit will be set up in the resident mission to help with this work. ADB headquarters staff will also monitor and support the work.

21. Three consulting firms or consortia will be recruited to work with the three implementing agencies as project management consultant (PMC). Their recruitment will follow quality-based selection or quality and cost-based selection methods (with a 90:10 weight between quality and cost). The PMC will be awarded part "time"- and part "performance"-based "hybrid contracts". The project unit in the resident mission will engage individual consultants to advance project implementation work (e.g., organizational arrangements, preparation of bidding documents for contractors, and the selection of consultant firms to help each implementing agency). The objective is to maintain momentum and be ready with contract awards as soon as possible. Terms of reference for experts to work in this unit are in the Technical Assistance.<sup>9</sup> The project unit will fast-track the hiring of firms and individuals by allowing: (i) national shortlists and simplified technical proposals up to \$1.5 million; (ii) shortlist of three firms for contracts less than \$0.5 million; and (iii) subject to ADB agreement, single source selection if comparative advantage of the firms is fully justified.

22. **Procurement of works and goods.** Both international competitive bidding (ICB) and national competitive bidding (NCB) procedures will be used to engage contractors and suppliers. In the case of national and provincial roads and irrigation, subprojects will be consolidated as much as possible to open the way for ICB. Smaller and dispersed subprojects will be undertaken through local contractors. Bids will be invited on bill of quantities worked out for each package using bidding procedures acceptable to ADB. For higher value and more unique works (bridges), NCB will be applied, including direct contracting with ADB's agreement. Other concessions under the emergency procedure could also apply mainly to (i) reduce the bidding period of NCB to a minimum of 14 days and ICB to a minimum of 21 days, (ii) increase NCB threshold to \$10 million, (iii) accept insurance bonds (NCB only) and security declaration against performance and bid securities, and (iv) relax conditions for bidder qualifications and joint venture arrangements. Details are provided in the PAM.

23. **Advance contracting and retroactive financing.** Advance contracting was approved by Management for works to ensure serviceability of key infrastructure and fast track prequalification of contractors, and consultants to help with project management. Retroactive financing will be allowed with an overall cap of 30% of the total loan and applicable only to eligible expenditures incurred after the emergency (7 August 2010)<sup>10</sup> and not more than 12

<sup>9</sup> Technical Assistance (accessible from the list of linked documents in Appendix 2).

<sup>10</sup> Based on ADB's assessment of the floods and local capacity to respond to the disaster.

months before the date of the loan agreements. Contracts subject to retroactive financing will be reviewed by ADB. Single bid contracts will not qualify for retroactive financing. On an exceptional basis, ADB will consider retroactive financing of contracts that, in addition to the selection criteria provided in the PAM, have been procured using Pakistan engineering council categories and qualification criteria and pricing close to the engineers' estimates (details provided in PAM). This arrangement is applicable only to contracts awarded before 31 May 2011 and could apply to all implementing agencies. In general, retroactive financing will be subject to ADB review establishing: (i) the soundness of the procurement process, (ii) price verification of awarded contracts against market norms, and (iii) random physical sampling on progress.

24. **Disbursement.** Disbursement arrangements will follow ADB's *Loan Disbursement Handbook* (2010, as amended from time to time). Imprest accounts will be opened by NHA and the Works and Services Department and Irrigation Department of Sindh under the OCR loan, but the maximum ceiling of these imprest accounts "in aggregate" will not, at any time, exceed the estimated ADB-financed expenditures to be paid from the imprest account over the next 6 months period or 10% of the loan amount, whichever will be lower. A separate imprest account will be opened by the Irrigation Department of Sindh under the ADF loan to finance eligible subprojects. Statement of expenditure procedure subject to a limit of \$100,000 equivalent will be used for the liquidation and replenishment of the imprest accounts, as well as for disbursements.

25. **Monitoring and evaluation.** The executing agencies that will provide ADB with (i) quarterly progress reports in a format consistent with ADB's project performance reporting system, (ii) consolidated financial reports, and (iii) consolidated 6 monthly and annual audit reports. The executing agencies will be supported by consultants. Each executing agency will set up a project performance monitoring system, similar to the one used by ADB. All project information will be posted on websites, including information on funds use, audits, reconstruction plans, procurement, contract awards, selection criteria, and grievance redress. An ADB inception mission will be fielded on effectiveness, followed by quarterly reviews. ADB Central Operations Services Office and Controller's Department will participate in these missions as required. The scope of the review is provided in the PAM.

### III. TECHNICAL ASSISTANCE

26. A capacity development TA of \$4 million, to be financed on a grant basis from ADB's Technical Assistance Special Fund (TASF-IV), is proposed. This will finance 20 person-months of international consultants and 600 person-months of national<sup>11</sup> consultants (footnote 9). The services will first help the implementing agencies during the first 6 months of the project (ahead of the project management consultant engagement). The overall objective is to help (i) key governance functions (monitoring, reporting and evaluation, coordination, bidding document preparation, contracting modalities, contract management arrangements, internal and external communications); (ii) put in place fiduciary arrangements comprising sound financial management, information system and audit functions; and (iii) support environmental and social safeguards, including assistance for developing resettlement, environmental, gender plans, and their implementation and monitoring.

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<sup>11</sup> The consultants will be supported by 1,000 person-months of field and support staff for data collection and surveys financed by the Technical Assistance.

## IV. DUE DILIGENCE

### A. Economic and Financial

27. Standard economic and financial assessments will be undertaken for all subprojects during the implementation. All project investments are expected to be economically viable. They will restore basic infrastructure and, in the process, improve the welfare of affected people and businesses. The investments will improve connectivity, as well as trade, agriculture production, and access to social services.

### B. Governance

28. **Financial management, control procedures, and audits.** Country-level financial management, accounting and auditing standards generally meet the requirements set out in ADB's Guidelines for the Financial Governance and Management of Investment Projects financed by ADB (2002) and Operations Manual.<sup>12</sup> Public sector accounts are also maintained in accordance with the New Accounting Manual, which itself is compliant with International Public Sector Accounting Standards. Project accounts will be audited by the Department of Auditor General of Pakistan. The Department of Auditor General of Pakistan already conducts audits in accordance with the auditing standards of International Organization of Supreme Audit Institutions.

29. A financial management assessment of the executing agencies and implementing agencies was conducted. Gaps include financial reporting and internal controls. This is especially the case with provincial implementing agencies. External consultants will be engaged to help bridge these gaps (terms of reference shown in the PAM). The consultants will also ensure that proper internal controls are in place and provide monthly internal audits reports. ADB will follow up with periodic due diligence on internal controls and accounting systems at the level of each implementing agency. This work will begin within the first six months of loan effectiveness. Individual consultants will be recruited for this purpose (footnote 8).

30. **Technical Audits:** All subprojects will go through a comprehensive technical audit for design and construction supervision.

31. **Anticorruption.** ADB's Anticorruption Policy (1998 as amended to date) was explained to and discussed with the government and the executing agencies. The specific policy requirements and anticorruption measures are described in the PAM.

32. **Complaints redress mechanism.** The executing agencies will set up grievance redress mechanisms with outreach for all subprojects funded by ADB. The objective is to deal effectively with complaints and facilitate access provincial level ombudsmen. Service benchmarks and protocols will be established under the grievance redress system, and all information on the complaints will be published on a dedicated website.

### C. Poverty and Social

33. The floods have exacerbated an already difficult poverty situation in many parts of Pakistan. The recent and still ongoing economic crisis has eroded welfare in several places. Unemployment is high and inflation is rising. Poverty is likely to increase because of floods. Quick assistance for livelihood restoration is vital for millions of affected households. The reconstruction of infrastructure can provide such lifelines. Many in isolated areas are still relying

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<sup>12</sup> ADB. 2003. Project Accounting, Financial Reporting, and Auditing. *Operations Manual*. OM J7/BP. Manila.

on airlifted food supplies. The floods caused a large-scale displacement of people, and urban migration is likely to increase. Pre-existing gender inequalities have worsened and will deteriorate further unless their participation in the reconstruction is ensured. A gender action framework was developed under the project to deal with gender concerns. A summary social and poverty reduction plan was prepared, highlighting project contributions to poverty reduction.

## **D. Safeguards**

34. **Environment and social.** The project is categorized as A for involuntary resettlement, B for environment, and C for indigenous people. Based on the indicative list of subprojects, except for three subprojects of national highways, all reconstruction works are within existing alignments. Resettlement plans were not possible for a widely spread portfolio, as subprojects will be confirmed during implementation. A land acquisition and resettlement framework and an environmental assessment review framework have been prepared. These comply with the applicable national and provincial laws, and the regulations extended by the Pakistan Environment Protection Act 1997. The project will follow strictly ADB's Safeguard Policy Statement (2009), the Disaster and Emergency Assistance Policy (2004), and other applicable ADB operations manuals. These frameworks describe the compliance requirements. The relevant implementing agencies, supported by expert consultants, are responsible for compliance with these frameworks, the Safeguard Policy Statement, and the loan and project agreements.

35. For national roads, the rapid environmental assessment checklist will be applied to all subprojects. Since the project is an EAL, the disclosure requirements for draft environmental impact assessments for subprojects in category A will be changed from the 120 days prior to ADB Board of Directors approval to 120 days prior to release of funds for subproject. This allows subprojects to be initiated before the onset of the monsoon rains. Due to the limited environmental impacts in the irrigation and transport sectors, the environmental assessment and review framework includes a sector approach to the preparation of initial environmental examinations. This approach ensures a faster approval without compromising compliance standards. An environmental management plan will be prepared for each subproject including regular inspections by ADB.

36. **Gender.** Social and gender development consultants will be hired to implement a gender action framework. Separate gender action plans will be prepared for subprojects with gender mainstreaming content. The consultants will also design a livelihoods program for communities and a gender-sensitive grievance mechanism with outreach to women groups, including through the federal ombudsman. The social and gender consultants working with the provincial authorities will facilitate the implementation and monitoring of these gender action plans. The gender specialist based at the resident mission will assist with the gender mainstreaming and monitoring under the project.

## **E. Risks and Mitigating Measures**

37. The risk assessment and risk management plan<sup>13</sup> provides details on key risks. The most important risk is inadequate leadership and poor organization of the reconstruction work. Another risk is low fiduciary oversight. There is also a risk of poor contractor performance. Leadership and organizational problems are mitigated through the involvement of experienced agencies and the deployment of international and local project management advisors. ADB has learned lessons from the earthquake reconstruction of 2005 and the project design incorporates many of these. The preparatory work related to contractor bids and contract awards are to be

<sup>13</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

supported by PMC. Governance and fiduciary risks will be contained through the strong commitment of national and provincial agencies, as well as close involvement and review by ADB of contracts as described in the loan agreement. Close oversight on contract performance will be kept with quarterly review missions. Measures also include placement of TA-financed procurement specialists on each procurement committee as observers. To ensure proper internal controls in each implementing agency, an independent internal audit review and reporting will be carried out by individual consultants hired under the TA. All information on the project, including matters on governance and safeguards compliance, as well as all complaints from affected people and contractors, will be published on websites and addressed through a dedicated grievance redress mechanism. Contractor performance risks are to be mitigated by the inclusion of sizable penalties.

## **V. ASSURANCES**

38. The government has assured ADB that the implementation of the project will conform to all applicable ADB policies and procedures, including those concerning anticorruption measures, the Safeguard Policy Statement (2009), safeguard frameworks, social and gender, procurement, financial management, and disbursement. The government has agreed with ADB on covenants set out in the loan and project agreements.

## **VI. RECOMMENDATION**

39. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and, acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve

- (i) the loan of \$600,000,000 to the Islamic Republic of Pakistan for the Flood Emergency Reconstruction Project from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board;
- (ii) the loan in various currencies equivalent to SDR31,704,000 to the Islamic Republic of Pakistan for the Flood Emergency Reconstruction Project from ADB's Special Funds resources, with an interest charge at the rate of 1% per annum; for a term of 40 years, including a grace period of 10 years with repayment of principal at 2% per annum for the first 10 years after the grace period and 4% per annum thereafter; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board; and
- (iii) the provision of technical assistance not exceeding the equivalent of \$4,000,000 to the Government of Pakistan for the Capacity Building for the Flood Emergency Reconstruction Project as described in paragraph 26 above.

C. Lawrence Greenwood, Jr.  
Vice President

23 March 2011

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<b>Impact</b> Economic and social recovery from the floods	<p>By end 2014, the AADT flow on national roads affected by floods is 10% higher than the projected AADT of 145,000 vehicles in 2010.</p> <p>By end 2015, agriculture production of major crops in Sindh equals or is above pre-flood levels -2009/10 (metric tons).  wheat - 3.70  cotton - 4.27  sugarcane – 13.50  rice – 2.42</p>	<p>NHA data and revenue statistics</p> <p>Production data on major crops published by the Ministry of Agriculture and Bureau of Statistics</p>	<b>Assumptions</b> <p>Other reforms proceed in parallel</p> <p>Political stability is maintained and the economic program is implemented successfully.</p> <b>Risk</b> <p>Security situation deteriorates, aggravated by social tensions caused by inequities in the distribution of emergency rehabilitation reconstruction assistance.</p>
<b>Outcome</b> Critical physical infrastructure to restore livelihoods and access to markets has been put in place. Assets are rebuilt back to their original standards or better.	<p>90% of the damages identified for national roads in the DNA report are reconstructed and rehabilitated by end 2014.</p> <p>Pre-flood irrigation systems with a water carrying capacity of 59 million cubic meters restored in Sindh by end 2014</p> <p>Pre-flood employment level of men (9.2 million) and women (3.7 million) in agriculture for Sindh restored by end 2014</p> <p>81 major flood embankments (estimated length of 1,000 km) and 800 km of provincial roads restored, rehabilitated by end 2014; reconstructed to protect social and economic assets in the flood-affected areas of Sindh and at standards to protect against future floods</p> <p>Improved capacity of implementing agencies and executing agencies in terms of fiduciary management, procurement, safeguard compliance, and gender mainstreaming – progress measured through reconstruction projects (by end 2014)</p>	<p>Project progress reports by NHA, consultants, and ADB</p> <p>Reports on irrigation system by departments of irrigation in Sindh, consultants and ADB</p> <p>Federal and provincial government statistics on agriculture and employment – statistics divisions</p> <p>Progress reports of the departments of irrigation and W&amp;S in Sindh; flood damage reports of future floods by National Disaster Management Authority; Consultant and ADB review mission reports.</p> <p>Annual third party audit reports; achievements on annual contracts according to protection plans (ADB PPMS) and ADB mission procurement and safeguard review reports; website reports.</p>	<b>Assumptions</b> <p>Adequate and timely Government and development partner funding</p> <p>Project implementation arrangements are in place and timely</p> <p>Procedural formalities do not delay the award of contracts</p> <p>Strong government support to timely and effective project implementation</p> <b>Risk</b> <p>Detritions of other factors like security or impact of other natural hazards like drought, etc.</p>



Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<b>Outputs</b> 1. Road network system (including bridges) repaired and rehabilitated	793 km of completely and partially damaged national highways repaired, rehabilitated and reconstructed by end 2014  At least 800 km of Sindh provincial roads repaired, rehabilitated and reconstructed by end 2014	NHA progress reports, corroborated by the Planning Commission and P&DD reports, consultants and ADB.  Progress reports provided by the implementing agency and the provincial P&DD	<b>Assumptions</b> PMC is in place by 15 August 2011 and at least 20% of the civil works contracts are awarded by November 2011  Domestic contractors with adequate capacity are available  <b>Risks</b> Low public sector capacity to execute projects  Logistics constraints, including availability of construction materials, and the sharp increase in construction prices  Security concerns affecting mobility of consultants/contractors  The level of realignment, environment, and acquisition of land takes more time than estimated
2. Provincial irrigation facilities rehabilitated and reconstructed	1.5 million ha of agricultural land affected by floods in Sindh improved through repair, rehabilitation, strengthening, and resectioning of flood protection embankments, and rehabilitation of main canal, distributaries minor canals and drainage infrastructure identified in the DNA (by end 2014)  At least 90% of selected flood protection embankments and irrigation infrastructure identified in the DNA rehabilitated, strengthened, and resectioned with maintenance access in Sindh by end 2014.	Federal and provincial government statistics on agriculture and cultivated land; consultant reports, ADB missions.  Progress report of Sindh irrigation departments.	
3. Support services	Assistance with procurement and safeguards compliance according to ADB guidelines and the arrangements included in the financing agreements.  At least 15% of the water structure (especially canals) has gender features in their design and Implementation.  One women livelihood project designed and financed	Procurement review by ADB  Progress report of the irrigation department and the gender monitoring reports by consultants and the irrigation department; consultant report and ADB missions	Engagement of advisors not done on time

Activities with Milestones	Inputs
<ol style="list-style-type: none"> <li>1. Initial requirement and activity plan for capacity building TA consultants worked out for all implementing agencies by 20 April 2011</li> <li>2. Individual consultants' terms of reference and work plans finalized for at least three TA consultants for each implementing agency by ADB before end of April 2011</li> <li>3. At least three TA consultants for each implementing agency hired and mobilized by 10 May 2011</li> <li>4. Packaging revised, sample bidding documents and request for proposal for hiring PMC prepared by the TA consultants by 25 May 2011</li> <li>5. Monitoring and grievance redress system developed by all implementing agencies with the support of TA consultants by 30 September 2011</li> <li>6. First safeguard (land, social, gender) monitoring report produced by 30 September 2011</li> <li>7. Implementing agency recruits loan consultants by 30 September 2011 and mobilizes them by 31 October 2011</li> <li>8. At least 20% of the civil works contracts are awarded by November 2011</li> <li>9. Prequalification commences for Framework (prequalification) contracts by 25 May 2011 and completed by 31 August 2011</li> <li>10. Design of at least 95 contract packages done by 31 December 2011, and implementing agency to have awarded civil works contracts for all 95 subprojects (for about \$200 million) by December 2011</li> <li>11. Land acquisition for ADB road segments done by March 2012</li> </ol>	<p><b>ADB: \$654 million</b></p> <p>OCR Loan: \$600 million  ADF Loan: \$50 million  TASF-IV TA Grant: \$4 million</p> <p><b>Government: \$72 million</b></p>

AADT = annual average daily traffic, ADB = Asian Development Bank, ADF = Asian Development Fund, PMC = project management consultant, DNA = damage and needs assessment, GDP = gross domestic product, ha = hectares, km = kilometer, NHA = National Highway Authority, OCR = ordinary capital resources, P&DD = Planning and Development Department, PMC = project management consultant, PPMS = project performance monitoring system, TA = technical assistance, TOR = terms of reference, W&S = works and services.

Source: Asian Development Bank.

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R. Stroem  
On behalf of Sector Teams  
Central and West Asia Department

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Juan Miranda  
Director General  
Central and West Asia Department

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=44372-01-3>

1. Loan Agreements
2. Project Agreements
3. Sector Assessment (Summary)
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Country Economic Indicators
8. Summary Poverty Reduction and Social Strategy
9. Gender Action Framework
10. Environmental Assessment and Review Framework
11. Land Acquisition and Resettlement Framework
12. Risk Assessment and Risk Management Plan
13. Technical Assistance

### **Supplementary Document**

14. Pakistan Floods 2010: Preliminary Damage and Needs Assessment