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GRANT NUMBER 0816-PAK(SF)

GRANT AGREEMENT  
(Special Operations)

(Khyber Pakhtunkhwa Cities Improvement Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 15 December 2021

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PAK 51036

**GRANT AGREEMENT  
(Special Operations)**

GRANT AGREEMENT dated 15 December 2021 between ISLAMIC REPUBLIC OF PAKISTAN ("Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

**WHEREAS**

(A) the Recipient has applied to ADB for a grant for the purposes of financing certain expenditures under Component 3 of the Project described in Schedule 1 to this Grant Agreement;

(B) the Recipient has applied to ADB for a loan in an amount not exceeding three hundred twenty-nine million five hundred seventy-five thousand Euro (€329,575,000) for the purposes of the Project described in Schedule 1 to the loan agreement of even date herewith between the Recipient and ADB ("Loan Agreement");

(C) the Project will be carried out by the Government of Khyber Pakhtunkhwa acting through the Local Government, Elections and Rural Development Department of Khyber Pakhtunkhwa (LGE&RDD), and for this purpose the Recipient will make available to the Government of Khyber Pakhtunkhwa the proceeds of the grant provided for herein upon terms and conditions satisfactory to ADB;

(D) it is agreed that, by a loan agreement expected to be entered into between the Recipient and the Asian Infrastructure Investment Bank ("AIIB") (the "AIIB Loan Agreement"), AIIB will provide a loan to the Recipient in the amount of two hundred million Dollars (\$200,000,000) ("AIIB Loan") for the purposes of financing part of the expenditures of the Project, such loan to be partially administered by ADB in accordance with the terms and conditions of a cofinancing agreement between AIIB and ADB ("AIIB Cofinancing Agreement"); and

(E) ADB has agreed to make a grant to the Recipient from ADB's Special Funds resources upon the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB and Khyber Pakhtunkhwa;

NOW THEREFORE the parties agree as follows:

**ARTICLE I**

**Grant Regulations; Definitions**

Section 1.01. All the provisions of ADB's Special Operations Grant Regulations, dated 1 January 2017 ("Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. Wherever used in this Grant Agreement, the several terms defined in the Grant Regulations have the respective meanings therein set forth unless modified

herein or the context otherwise requires. Additional terms used in this Grant Agreement have the following meanings:

- (a) "Abbottabad WSSC" means the Abbottabad Water and Sanitation Services Company incorporated under the Companies Act, 2017, or any successor thereto;
- (b) "AIIB" has the meaning set forth in Recital (D) above;
- (c) "AIIB Cofinancing Agreement" means the cofinancing agreement to be entered into by ADB and AIIB as referred to in Recital (D) above;
- (d) "AIIB Loan Agreement" means the loan agreement to be entered into by the Recipient and AIIB as referred to in Recital (D) above;
- (e) "CAP" means a corrective action plan for the Project, including any update thereto, prepared and submitted by the Recipient pursuant to the requirements set forth in the RP and cleared by ADB;
- (f) "CIUs" means, collectively, the city implementation unit established to assist Abbottabad, and the city implementation unit established to assist Kohat, and the city implementation unit established to assist Mardan, and the city implementation unit established to assist Mingora, and the city implementation unit established to assist Peshawar, with the implementation of the Project;
- (g) "Consulting Services" means consulting services as described in the Procurement Regulations and set out in the Procurement Plan, and to be financed out of the proceeds of the Grant;
- (h) "Environmental Impact Assessment" or "EIA" means each environmental impact assessment for the Project, including any update thereto, prepared and submitted by the Project Executing Agency and cleared by ADB;
- (i) "Environmental Management Plan" or "EMP" means each environmental management plan for the Project, including any update thereto, incorporated in the EIAs;
- (j) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;
- (k) "GAP" means the gender action plan prepared for the Project, including any update thereto, and agreed to between the Recipient and ADB;
- (l) "Goods" means equipment and materials as set out in the Procurement Plan and to be financed out of the proceeds of the Grant, including any related Nonconsulting Services such as transportation, insurance, installation, commissioning, training, and initial maintenance;

- (m) "IEE" or "Initial Environmental Examination" means each initial environmental examination for the Project, including any update thereto, prepared and submitted by the Recipient and cleared by ADB;
- (n) "Implementing Agency" means the city implementing unit established in each WSSC, or any successor acceptable to ADB, which is responsible for the carrying out of the Project as an implementing agency;
- (o) "Involuntary Resettlement Safeguards" means the principles and requirements set forth in Chapter V, Appendix 2, and Appendix 4 (as applicable) of the SPS;
- (p) "Khyber Pakhtunkhwa" means the government of the Province of Khyber Pakhtunkhwa of the Recipient, or any successor thereto acceptable to ADB;
- (q) "Kohat WSSC" means the Kohat Water and Sanitation Services Company incorporated under the Companies Act, 2017, or any successor thereto;
- (r) "LGE&RDD" means the Local Government, Elections and Rural Development Department of Khyber Pakhtunkhwa;
- (s) "Loan Agreement" means the grant agreement to be entered into by the Recipient and ADB as referred to in Recital (B) above;
- (t) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2017, as amended from time to time);
- (u) "Mardan WSSC" means the Mardan Water and Sanitation Services Company incorporated under the Companies Act, 2017, or any successor thereto;
- (v) "Mingora WSSC" means the Mingora Water and Sanitation Services Company incorporated under the Companies Act, 2017, or any successor thereto;
- (w) "Nonconsulting Services" means nonconsulting services as described in the Procurement Regulations and set out in the Procurement Plan, and to be financed out of the proceeds of the Grant;
- (x) "PAM" means the project administration manual for the Project dated 15 October 2021 and agreed between the Recipient and ADB, as updated from time to time in accordance with the respective administrative procedures of the Recipient and ADB;
- (y) "Peshawar WSSC" means the Peshawar Water and Sanitation Services Company incorporated under the Companies Act, 2017, or any successor thereto;
- (z) "PMU" means the Project management unit established to assist Khyber Pakhtunkhwa with the execution of the Project;

- (aa) "Procurement Plan" means the procurement plan for the Project dated 15 October 2021 and agreed between the Recipient and ADB, as updated from time to time in accordance with the Procurement Policy, the Procurement Regulations, and other arrangements agreed with ADB;
- (bb) "Procurement Policy" means ADB's Procurement Policy – Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time);
- (cc) "Procurement Regulations" means ADB's Procurement Regulations for ADB Borrowers - Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time);
- (dd) "Project Executing Agency" for the purposes of, and within the meaning of, the Grant Regulations means the Khyber Pakhtunkhwa (acting through LGE&RDD), or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;
- (ee) "Project facilities" means, collectively, the boreholes, tube wells, water reservoirs, water pumping stations, water pipes, meters, and supervisory control and data acquisition (SCADA) systems to be installed, constructed or rehabilitated under the Project, the sewage pumping stations, sewer pipes, wastewater management equipment, local drains, wastewater treatment plant and solid waste collection, disposal system and segregation equipment to be installed, rehabilitated, replaced, provided, unblocked or constructed under the Project; and the buildings, parks and footpaths to be constructed or rehabilitated under the Project;
- (ff) "RF" means the land acquisition and resettlement framework for the Project, including any update thereto, agreed between the Recipient and ADB;
- (gg) "RP" means each land acquisition and resettlement plan for a water supply and sanitation or solid waste, or green urban infrastructure component of the Project, including any update thereto, prepared and submitted by the Recipient and cleared by ADB;
- (hh) "RP/CAP Compliance Report" means a report prepared by the external expert or NGO as described in paragraph 8 of Schedule 4 to the Loan Agreement, that covers progress with, implementation of, and compliance with, the RP, including any corrective and preventative actions;
- (ii) "Safeguard Policy Statement" or "SPS" means ADB's Safeguards Policy Statement (2009);
- (jj) "Safeguards Monitoring Report" means each semiannual report prepared and submitted by the Project Executing Agency to ADB that describes progress with implementation of and compliance with the EMPs and the RPs, including any corrective and preventative actions;

- (kk) "SDDR" means a social due diligence report for the Project, including any update thereto, prepared and submitted by the Recipient pursuant to the requirements set forth in the RF and cleared by ADB;
- (ll) "Services" means Consulting Services and Nonconsulting Services;
- (mm) "Works" means construction or civil works as set out in the Procurement Plan and to be financed out of the proceeds of the Grant, including any related Nonconsulting Services, and project related services that are provided as part of a single responsibility or turnkey contract; and
- (nn) "WSSCs" means, collectively, the Abbottabad WSSC, the Kohat WSSC, the Mardan WSSC, the Mingora WSSC and the Peshawar WSSC.

## **ARTICLE II**

### **The Grant**

Section 2.01. ADB agrees to make available to the Recipient from ADB's Special Funds resources an amount of five million Dollars (\$5,000,000).

## **ARTICLE III**

### **Use of Proceeds of the Grant**

Section 3.01. The Recipient shall make the proceeds of the Grant available to the Project Executing Agency and the Implementing Agencies upon terms and conditions satisfactory to ADB and shall cause the Project Executing Agency and the Implementing Agencies to apply such proceeds to the financing of expenditures on the Project in accordance with the provisions of this Grant Agreement and the Project Agreement.

Section 3.02. The proceeds of the Grant shall be allocated and withdrawn in accordance with the provisions of Schedule 1 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and ADB.

Section 3.03. Except as ADB may otherwise agree, the Recipient shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Grant in accordance with the provisions of Schedule 3 to the Loan Agreement.

Section 3.04. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2028 or such other date as may from time to time be agreed between the Recipient and ADB.



## **ARTICLE IV**

### **Particular Covenants**

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Recipient shall perform, or cause to be performed, all obligations set forth in the Project Agreement and Schedule 4 to the Loan Agreement.

Section 4.02. The Recipient shall enable ADB's representatives to inspect the Project, the Goods, Works and Services, and any relevant records and documents.

Section 4.03. ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

Section 4.04. The Recipient shall take all actions which shall be necessary on its part to enable the Project Executing Agency to perform its obligations under the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

## **ARTICLE V**

### **Suspension**

Section 5.01. The following are specified as additional events for suspension of the right of the Recipient to make withdrawals from the Grant Account for the purposes of Section 8.01(k) of the Grant Regulations:

- (a) the Recipient shall have failed to perform any of its obligations under the Loan Agreement;
- (b) the AIIB Cofinancing Agreement shall have been suspended or cancelled; and
- (c) the AIIB Loan shall have become liable for suspension or cancellation or shall have become repayable prior to its agreed maturity date.

## **ARTICLE VI**

### **Effectiveness**

Section 6.01. The following is specified as an additional condition to the effectiveness of this Grant Agreement for the purposes of Section 9.01(e) of the Grant Regulations: the Loan Agreement, in form and substance satisfactory to ADB, shall have been

duly executed and delivered on behalf of the Recipient, and shall have become legally binding upon the Recipient in accordance with its terms, subject only to the effectiveness of this Grant Agreement.

Section 6.02. The following is specified as an additional matter, for the purposes of Section 9.02(c) of the Grant Regulations, to be included in the opinion or opinions to be furnished to ADB: the Loan Agreement has been duly authorized by or ratified by, and executed and delivered on behalf of, the Recipient, and is legally binding upon the Recipient, in accordance with its terms, subject only to the effectiveness of this Grant Agreement.

Section 6.03. A date 90 days after the date of this Grant Agreement is specified for the effectiveness of this Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.

## **ARTICLE VII**

### **Termination**

Section 7.01. The Grant Agreement and all obligations of the parties thereunder shall terminate on a date 15 years after the date of this Agreement.

## **ARTICLE VIII**

### **Delegation of Authority**

Section 8.01. The Recipient hereby designates the Project Executing Agency as its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02, 3.03 and 3.05 of this Grant Agreement and under Sections 5.01, 5.02, 5.03 and 5.04 of the Grant Regulations.

Section 8.02. Any action taken or any agreement entered into by the Project Executing Agency pursuant to the authority conferred under Section 8.01 of this Grant Agreement shall be fully binding on the Recipient and shall have the same force and effect as if taken by the Recipient.

Section 8.03. The authority conferred on the Project Executing Agency under Section 8.01 of this Grant Agreement may be revoked or modified by agreement between the Recipient and ADB.



**ARTICLE IX****Miscellaneous**

Section 9.01. The Secretary, Economic Affairs Division, Ministry of Economic Affairs of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

Section 9.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

For the Recipient

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

Facsimile Number:

(92-51) 910-4016

For ADB


Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines

Facsimile Numbers:


(632) 8636-2444  
(632) 8636-2301.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Grant Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

ISLAMIC REPUBLIC OF PAKISTAN

By   
MIAN ASAD HAYAUD DIN  
Secretary, Economic Affairs Division  
Ministry of Economic Affairs

ASIAN DEVELOPMENT BANK

By   
YONG YE  
Country Director  
Pakistan Resident Mission

## SCHEDULE 1

### Description of the Project

1. The objective of the Project is improved access to reliable and resilient urban services in Abbottabad, Kohat, Mardan, Mingora and Peshawar cities in the territory of the Recipient.

2. The Project shall comprise:

#### Component One

- (a) Water and Sanitation Component: improvements and augmentation of approximately 1,200 kilometers of water supply, sewerage network and household connection, the construction of two clean water supply treatment facilities, two sewage treatment facilities, and at least ten tube wells, household connection to water supply systems, and the installation of smart water meters and supervisory control and data acquisition systems.
- (b) Solid Waste Management Component: the development of primary and secondary waste collections and five third-generation integrated solid waste management facilities, including material recovery to reduce and recycle waste and to deploy waste-to-energy options.
- (c) Green Urban Infrastructure Component: the development of green infrastructure to promote healthy and sustainable living environments through the rehabilitation of seven existing green spaces and nature trails, improvement of pedestrian sidewalks and streets, conversion of an existing landfill to a park, dedicated spaces for women's sports and physical fitness, and the establishment of a women's sports complex.

#### Component Two

- (d) Strengthening the institutional capacities of gender-inclusive urban service providers through the establishment of the Khyber Pakhtunkhwa Municipal Regulatory Office to improve the regulatory oversight mechanism of municipal services, the launch of a financial sustainability action plan to introduce cost recovery tariff programs based on new service standards, the development of enterprise resource planning systems for the WSSCs to strengthen their operational systems and management of assets and resources, training staff of the WSSCs, strengthening women's participation in service provision, improved feedback mechanism to improve billing and complaints handling systems, implementation of an effective communication strategy that promotes water, sanitation and hygiene practices.

Component Three

- (e) Increasing the role of women in urban development through improved management of the Women Business Development Centre in Khyber Pakhtunkhwa, improved skills development and income generating activities with a multipurpose community hall and exhibitions center, an outdoor community recreational space, an area for selling home-based products, a day care facility for working mothers, establishment of a livelihood skills development program for women that includes training and materials support, the establishment of a scholarship program for qualified female students to pursue research and education in urban sector development, engineering, and climate change, improving the women's polytechnic institute facilities in Peshawar city, providing water, sanitation and hygiene practices and climate change training for women, and establishing a new community-led water, sanitation and hygiene initiative called Clean City for All within the WSSCs.

3. The Project is expected to be completed by 31 December 2027.

**SCHEDULE 2****Allocation and Withdrawal of Grant Proceeds**General

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Grant and the allocation of the Grant proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category of the Table.)

Basis for Withdrawal from the Grant Account

2. Except as ADB may otherwise agree, the proceeds of the Grant shall be allocated to items of expenditure, and disbursed on the basis of the withdrawal percentage for each item of expenditure, as set forth in the Table.

Reallocation

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

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

Disbursement Procedures

4. Except as ADB may otherwise agree, the Grant proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

Retroactive Financing

5. Withdrawals from the Grant Account may be made to finance eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Grant Agreement in connection with Works, Goods and Services, subject to a maximum amount equivalent to 20% of the Grant amount.

Condition for Withdrawals from Grant Account

6. Notwithstanding any other provision of this Grant Agreement, no withdrawals shall be made from the Grant Account until:

- (a) the AIIB Loan Agreement shall have been executed by the parties thereto; and
- (b) the PMU shall have submitted to ADB, the minutes of the departmental accounts committee meeting, validated by the office of the Auditor General of Khyber Pakhtunkhwa, evidencing the settlement or agreed remedial actions for the audit observations raised on the project financial statements for the project readiness financing facility associated with the Project, for the financial year ended 30 June 2020.



TABLE

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS			
Number	Item	Total Amount Allocated for ADB Financing \$ Category	Basis for Withdrawal from the Grant Account
1	Gender Interventions**	1,651,307	100% of total expenditure claimed
2	Project Management**	1,984,600	100% of total expenditure claimed
3	Works: Women Business Development	1,009,093	100% of claimed expenditure
4	Unallocated	355,000	
	<b>TOTAL</b>	<b>5,000,000</b>	

\*\* Subject to the condition for withdrawal described in paragraph 6 of Schedule 2.