

May 22, 2001

Mr. Nawid Ahsan
Secretary
Economic Affairs Division
Ministry of Finance & Economic Affairs
Government of Pakistan
Islamabad, Pakistan

Re: NWFP Community Infrastructure and NHA Strengthening Project: CR.
2829-PAK Amendment to Development Credit Agreement and Project
Agreement

Dear Sir:

We refer to the Development Credit Agreement (DCA) between the Islamic Republic of Pakistan (the Borrower) and the International Development Association (the Association) and the Project Agreement (the Project Agreement) between the Association and the North West Frontier Province (NWFP), both dated April 18, 1996, for the above-referenced Project. We also refer to (i) the letters dated July 10, 2000, and January 15, 2001, respectively, from Government of Pakistan, Economic Affairs Division (EAD), Ministry of Finance & Economic Affairs, requesting the Association to agree to the replacement of the Borrower's National Housing Authority (NHA) with the Borrower's Ministry of Environment, Local Government and Rural Development, as the Borrower's agency participating under Part B.2 of the Project, and to reallocate an amount of two million, six hundred twenty thousand Special Drawing Rights (SDR\$2,620,000) from the 'Civil Works' and 'Unallocated' categories to finance expenditures under Part B.2 of the Project; (ii) the Letter of Understanding between the Swiss Agency for Development and Cooperation (SDC) and the International Bank for Reconstruction and Development (the Bank) dated January 25, 2000, in which SDC has increased its financial contribution to the Project by US\$1 million equivalent to be used for the institutional strengthening of NWFP's Local Government, Elections and Rural Development Department under Part B.1 of the Project; and (iii) discussions held between the Borrower and the Association, and documented in the Association's letter to the Borrower of July 21, 2000, regarding an amendment to Schedule 1 of the Project Agreement to reflect improvements in National Competitive Bidding procedures.

The Association, after due consideration, has decided to accede to your requests, and also to reflect the additional amount of the SDC contribution in the DCA. Accordingly, the Association hereby amends the DCA and the Project Agreement to read as follows:

Development Credit Agreement:

1. Section 1.02 is amended as follows:

(i) Section 1.02 (b) is deleted and replaced with:

'MELG&RD" means the Ministry of Environment, Local Government and Rural Development.'

(ii) Section 1.02 (p) and (q) are amended by deleting the 'and' at the end of (p) and adding it at the end of (q);

(iii) A new Section 1.02 (r) is added, and reads as follows:

'FSU" means the Federal Support Unit, established within MELG&RD to implement Part B.2 of the Project.'

2. Section 3.01 of Article III to the DCA is amended to read:

"The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and to this end: (i) shall carry out Part B.2 of the Project through MELG&RD with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and community development practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Part B.2 of the Project;

and (ii) without any limitation or restriction upon any of its obligations under the DCA, shall cause NWFP to perform in accordance with the provisions of the Project Agreement all the obligations of NWFP therein set forth, shall take and cause resources necessary or appropriate to enable NWFP to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance."

3. Part B.2 of Schedule 2 to the DCA is amended to read:

"Provision of technical assistance to the Borrower for strengthening of MELG&RD, including assistance in data analysis and sector monitoring; program monitoring, evaluation and dissemination; building technology evaluation and dissemination; policy development; and information exchange."

4. Schedule 1 to the DCA is amended as set forth in the Attachment to this amendment letter.

5. Paragraph 2 (c) of Schedule 1 to the DCA is amended to read:

"the term 'incremental staff costs' means:

"(i) the cost of staff of the PMU and PIUs appointed to posts created on or after March 1, 1994 exclusively for purposes of Part A and B.1 of the Project, and

(ii) the cost of staff of the Federal Support Unit appointed to posts created on or after March 1, 2001, exclusively for purposes of Part B.2 of the Project."

6. Paragraph 1(a) of Schedule 3 is amended to read:

"the term 'eligible categories' means in respect of the Borrower's Special Account, Categories 2(a), 4(a) and 5(b) set forth in the table in paragraph 1 of Schedule 1 to this Agreement, and, in respect of the NWFP Special Account, all others of Categories 1 through 5 set forth in the table in paragraph 1 of Schedule 1 to this Agreement."

Project Agreement:

7. Part C.1 of Schedule 1 to the Project Agreement is amended to include paragraphs (c) and (d) which read as follows:

"(c) Grouping of Contracts

To the extent practicable, contracts for goods and works shall be procured in bid packages to attract national bidders.

(d) Improvement of Bidding Procedures

In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section 1 of the Guidelines:

- (i) invitations to bid shall be advertised in at least one national newspaper with a wide circulation, at least 30 days prior to the deadline for the submission of bids;
- (ii) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (iii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;
- (iv) bidding shall not be restricted to pre-registered firms;
- (v) qualification criteria shall be stated in the bidding documents and, if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a

reasonable opportunity of registering, without let or hindrance;

- (vi) bids shall be opened in public in one location, immediately after the deadline for submission of bids;
- (vii) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (viii) contracts shall be awarded to the lowest evaluated bidders;
- (ix) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders;
- (x) re-bidding shall not be carried out without the Association's prior concurrence;
- (xi) contracts shall not be awarded on the basis of nationally negotiated rates;
- (xii) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;
- (xiii) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed by the Association;
- (xiv) a bidder's Bid Security shall apply only to a specific bid, and a contractor's performance security shall apply only to the specific contract under which it was furnished;
- (xv) bids shall not be invited on the basis of percentage premium or discount over the estimated cost;
- (xvi) extension of bid validity beyond 60 days of original date shall not be obtained unless justified by exceptional circumstances, and accompanied by the Association's prior concurrence; and
- (xvii) there shall not be any restrictions on the means of delivery of the bids."

Except as specifically amended by this amendment letter, all other provisions of the DCA and the Project Agreement remain in full force and effect.

Please confirm your agreement to this amendment by signing the form of confirmation set forth below, and returning to us one fully executed original of this amendment letter at your earliest convenience, and retaining one original for your records.

This amendment shall become effective as of the date of countersignature of this amendment letter.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Abid Hasan
Acting Country Director
Pakistan and Afghanistan
South Asia Region

AGREED:

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ M, Amjad Shaikh
Joint Secretary, Economic Affairs Division
Government of Pakistan
Islamabad

Date: June 6, 2001

NORTH WEST FRONTIER PROVINCE

By /s/ Tariq Mehmood
Additional Chief Secretary
Planning, Environment and Development Department
Government of NWFP, Peshawar

Date: June 12, 2001

Attachment

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

"1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit and the Swiss Contribution, the allocation of the amounts of the Credit and the Swiss Contribution to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Swiss Contri- bution Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works	7,000,000		70%
(2) Vehicles and equipment for:			100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(a) Part B.2 of the Project	120,000		
(b) All other Parts of the Project	320,000		
(3) On-plot sanitation grants under Part A.2 of the Project	520,000		100% of amounts disbursed
(4) Consultants' services, other services and training for:			100%
(a) Part B.2 of the Project	2,030,000	50,000	
(b) All other Parts of the Project	700,000	4,400,000	
(5) Incremental Staff	510,000		60% in FY95

Costs for all parts
of the Project
except Part B.2

through FY97
55% in FY98
and FY99 and
40% thereafter

(5) (b) Part B.2
of the Project 500,000

80% in FY2001
55% in FY2002 for
expenditures
incurred on or
after April 15,
2001

(6) Refunding of
Project Preparation
Advance 900,949

Amount due
pursuant to
Section 2.02(d) of
this Agreement

(7) Unallocated 1,099,051

Total 13,700,000 4,450,000"

