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CONFORMED COPY

CREDIT NUMBER 4134 - PAK

Financing Agreement

(Earthquake Emergency Recovery Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 22, 2005

CREDIT NUMBER 4134 - PAK

FINANCING AGREEMENT

AGREEMENT dated December 22, 2005, between ISLAMIC REPUBLIC OF PAKISTAN (the “Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the “Association”).

WHEREAS (A) an earthquake occurred on the Recipient’s territory on October 8, 2005, resulting in, among other things, devastating loss of life, livelihoods, social services and infrastructure (the “Earthquake”);

WHEREAS (B) the Recipient having satisfied itself as to the feasibility and priority of the Project described in Schedule 1 to this Agreement (the Project), which forms part of its emergency recovery and reconstruction program, has requested the Association to assist in the financing of the Project; and

WHEREAS (C) the Association has agreed, on the basis, *inter alia*, of the foregoing, to provide financing to the Recipient upon the terms and conditions set forth in this Agreement;

The Recipient and the Association hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to two hundred and eighty one million eight hundred thousand Special Drawing Rights (SDR 281,800,000) (the “Credit”) to assist in financing the Project.
- 2.02. The Recipient may withdraw the proceeds of the Credit in accordance with Section IV of Schedule 2 to this Agreement.

- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is United States Dollars.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through ERRRA and the Project Implementing Entities, in accordance with the provisions of Article IV of the General Conditions and the terms set out in the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV – EFFECTIVENESS; TERMINATION

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.02. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V – REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics, or the Secretary, Additional Secretary, Joint Secretary, or Deputy Secretary Economic Affairs Division.

5.02. The Recipient's Address is:

The Secretary to the Government of Pakistan
Economic Affairs Division
Ministry of Economic Affairs and Statistics
Islamabad, Pakistan

5.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	202-477-6391

AGREED at Islamabad, Pakistan, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Khalid Saeed

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Abid Hassan

Acting Country Director
Pakistan

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient in carrying out its emergency recovery and reconstruction program in the Affected Areas, following the massive destruction and devastation that occurred as a result of the Earthquake.

The Project consists of the following parts:

Part 1: Housing

Carrying out a program of housing reconstruction in the Affected Areas, including provision of Housing Grants for the construction and rehabilitation of permanent hazard-resistant housing, provision of training to construction workers, designing and implementing an information dissemination system, establishment of a grievance redress mechanism at local, divisional and district levels to handle any grievances arising as a result of the program, provision of training in land management, monitoring of social and environmental aspects, and provision of technical assistance.

Part 2: Livelihood Support

Provision of livelihood support to individuals and families in the Affected Areas, through the provision of Cash Grants, in accordance with the Acceptable Assistance Criteria.

Part 3: Critical Imports

Importation of critical goods required for the reconstruction and rehabilitation of the Affected Areas.

Part 4: Implementation Capacity Building

Provision of training, technical assistance, goods, equipment and operating costs for the implementation, monitoring and supervision of the Project.

Part 5: Other Emergency Recovery, Rehabilitation and Reconstruction Activities

Carrying out of emergency recovery and reconstruction activities in Affected Areas in additional sectors including, social protection, health, education, agriculture, and infrastructure.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Overall Project Implementation and Coordination

1. (a) The Recipient shall, and shall cause ERRA to, carry out the Project in accordance with the Operations Manual and the Environmental and Social Screening and Assessments Framework.

(b) Except as the Association shall otherwise agree, the Recipient shall not amend, vary, or waive any provision of the Operations Manual and the Environmental and Social Screening and Assessments Framework if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

2. (a) The Recipient shall vest responsibility for the overall management and coordination of the Project in ERRA.

(b) The Recipient shall maintain ERRA with functions, staffing, and resources satisfactory and acceptable to the Association, for the purposes of, among other things, overall policy guidance and planning, setting of standards, formulation of regulations, coordination and monitoring of the reconstruction and rehabilitation program, and implementation of selected activities as agreed with the Association. In carrying out its functions, ERRA shall work closely with the Project Implementing Entities, and shall be responsible for the overall coordination of all activities under the Project.

3. The Project Implementing Entities shall carry out the Project in accordance with the provisions of the Schedule to the Project Agreement.

B. Environmental and Social Safeguards

1. Without prejudice to the generality of paragraph A.1 above, the Recipient shall ensure that all civil works under the Project, shall be undertaken in accordance with design standards and technical specifications satisfactory to the Association and the relevant provisions of the Environmental and Social Screening and Assessments Framework, and shall not take or permit to be taken any action which would prevent or interfere with such implementation.

2. The Recipient shall not, and shall cause ERRA not to, take any action which shall prevent or interfere with the carrying out of the recommendations of the Environmental and Social Screening and Assessments Framework.

3. The Recipient shall ensure that activities financed under the Project shall not involve any land acquisition or involuntary resettlement of the local population and/or businesses. In the event that any land is required for the Project or any resettlement is to be carried out, the Recipient shall, in consultation with the Association, ensure that such land shall be obtained and such resettlement carried out in accordance with plans agreed with the Association.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Association not later than one month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained by ERRA a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section the Recipient shall through ERRA prepare and furnish to the Association, not later than one (1) month after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have the Financial Statements of ERRA audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than four (4) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Credit shall be procured in accordance with

the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>
(a) National Competitive Bidding
(b) Limited International Bidding
(c) Shopping
(d) Direct Contracting
(e) Force Account
(f) Community Participation in Procurement

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Quality Based Selection
(b) Selection under a Fixed Budget
(c) Least-Cost Selection
(d) Selection Based on the Consultants' Qualifications
(e) Single-Source Selection
(f) Selection of Individual Consultants'

D. Review by the Bank of Procurement Decisions

1. The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Credit

A. General

1. The Recipient may withdraw the proceeds of the Credit in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Credit ("Category"), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Goods, vehicles and equipment (except under Part 3 of the Project), Works, Consultants' Services (including audit costs), and Operating Costs* for the Project	14,090,000	100%
(2) Cash Grants	59,880,000	100%
(3) Housing Grants	147,950,000	100%
(4) Goods under Part 3 of the Project	59,880,000	100%
TOTAL AMOUNT	281,800,000	

*The term "incremental operating costs" means the salaries and allowances and other emoluments of the staff recruited by ERRA, the Reconstruction Agencies, the District Reconstruction Units, and other entities responsible for implementing the Project, operations, maintenance and/or rental costs of vehicles, operations and maintenance costs of equipment and office premises acquired by ERRA, the Reconstruction Agencies, the District Reconstruction Units and other entities responsible for implementing the Project, bank charges and the costs of advertising in the media for bids and other purposes related to the Earthquake emergency, but excluding salaries of officials of the Recipients' civil service.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:

- (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$80,000,000 equivalent may be made for payments made prior to this date but on or after October 8, 2005, for Eligible Expenditures;
 - (b) under Category 2 unless the Recipient has furnished to the Association evidence of Acceptable Assistance Criteria; or
 - (c) under Category 3 unless the Recipient has adopted technical guidelines and a training program satisfactory to the Association, and has appointed a program manager to handle the implementation of Part 1 of the Project (as described in Schedule 1 to this Agreement).
2. The Closing Date is June 30, 2009.

Section V. Other Undertakings

1. The Recipient shall no later than four (4) months after the Effectiveness Date adopt an Operations Manual satisfactory to the Association.
2. The Recipient shall no later than sixty (60) days after the Effectiveness Date appoint financial management, accounting and procurement staff in numbers and with qualifications acceptable to the Association.
3. The Recipient shall prepare in a manner satisfactory to the Association, a Procurement Plan comprising: (i) with respect to activities already identified to be financed under the Project, the procurement methods and thresholds for such activities, no later than sixty (60) days after the Effectiveness Date; and (ii) with respect to activities under Part 5 of the Project (as described in Schedule 1 to this Agreement), the procurement methods and thresholds for such activities, no later than sixty (60) days after the date on which such activities are approved to be financed by the Association.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each March 15 and September 15:	
commencing March 15, 2016 to and including September 15, 2025	1.25%
commencing March 15, 2026 to and including September 15, 2040	2.50%

*The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

APPENDIX

Definitions

1. “Acceptable Assistance Criteria” means the criteria and guidelines, in form and substance satisfactory and acceptable to the Association, governing the provision of Cash Grants.
2. “Affected Areas” means the districts of Muzaffarabad, Neelum, Poonch (Rawalakot), Bagh and Sadhnoti in AJK, and the districts of Shangla, Abbottabad, Mansehra, Battagram, Kohistan in NWFP, and any other districts that the Association and the Recipient jointly designate.
3. “AJK” means the territory of Azad Jammu and Kashmir or any successor thereto.
4. “AJK Reconstruction Agency” means the Agency established by AJK to handle the day-to-day implementation of the Project within its territory, and referred to in Section 1 paragraph A.3 of the Schedule to the Project Agreement.
5. “AJK Steering Committee” means the committee established by AJK to provide policy and strategic guidance for Project implementation within AJK, and referred to in Section 1 paragraph A.2 of the Schedule to the Project Agreement.
6. “Cash Grants” means cash payments for livelihood support to be provided by the Recipient to affected individuals and families from the Affected Areas under Part 2 of the Project (as described in Schedule 1 to this Agreement).
7. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
8. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
9. “District Reconstruction Units” means the units established within each Affected Area, and referred to in Section 1 paragraph A.4 of the Schedule to the Project Agreement.
10. “Environmental and Social Screening and Assessments Framework” means the Recipient’s Environmental and Social Screening and Assessment Framework dated November 2, 2005, satisfactory to the Association, including any amendments made to such documents from time to time with the Association’s approval, that contain measures to address any adverse environmental or social impact arising from carrying out the Project.

11. “ERRA” means the Recipient’s Earthquake Reconstruction and Rehabilitation Authority, established pursuant to the Recipient’s Notification No. F1 (4) / 2005-Adm., dated October 24, 2005, which is charged with the general oversight and overall supervision and coordination of the Recipients’ Earthquake emergency reconstruction and rehabilitation program.
12. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
13. “Housing Grants” means grants from the Credit proceeds provided by the Recipient to affected persons for the construction and rehabilitation of houses under Part 1 of the Project (as described in Schedule 1 to this Agreement), in accordance with operating procedures satisfactory and acceptable to the Association.
14. “NWFP” means the North West Frontier Province of the Recipient, or any successor thereto.
15. “NWFP Reconstruction Agency” means the Agency established by NWFP to handle the day-to-day implementation of the Project within its territory, and referred to in Section 1 paragraph A.3 of the Schedule to the Project Agreement.
16. “NWFP Steering Committee” means the committee established by NWFP to provide policy and strategic guidance for Project implementation within NWFP, and referred to in Section 1 paragraph A.2 of the Schedule to the Project Agreement.
17. “Operations Manual” means the Recipient’s manual satisfactory and acceptable to the Association, which includes policies and guidelines for the strategic and operational management of the Project and financial management and auditing arrangements, including any updates made from time to time with the Association’s approval.
18. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
19. “Procurement Plan” means the Recipient’s procurement plan for the Project acceptable to the Association and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
20. “Project Implementing Entities” means AJK and NWFP, and “Project Implementing Entity” means each of AJK or NWFP.

21. “Reconstruction Agencies” means collectively, the AJK Reconstruction Agency and the NWFP Reconstruction Agency.
22. “Steering Committees” means collectively the AJK Earthquake Steering Committee and the NWFP Earthquake Steering Committee.