



Administration of Cofinancing

Project Number: 47281-001
Loan Number: 3134-PAK
October 2015

Proposed Administration of Grant Islamic Republic of Pakistan: National Highway Network Development in Balochistan Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 12 October 2015)

Currency unit – pound/s sterling (£)

£1.00 = \$0.6526

\$1.00 = £1.5322

ABBREVIATIONS

ADB – Asian Development Bank
DFID – Department for International Development of
the United Kingdom

NOTE

In this report, “\$” refers to US dollars.

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CONTENTS

	Page
PROJECT AT A GLANCE	
I. BACKGROUND	1
II. PROPOSED ADMINISTRATION OF COFINANCING	1
A. Rationale	1
B. Administration of Cofinancing	1
III. THE PRESIDENT'S RECOMMENDATION	2
APPENDIXES	
1. Revised Design and Monitoring Framework	3
2. Externally Financed Grant Agreement	4

PROJECT AT A GLANCE

1. Basic Data		Project Number: 47281-001	
Project Name	National Highway Network Development in Balochistan Project	Department /Division	CWRD/CWTC
Country	Pakistan	Executing Agency	National Highway Authority
Borrower	Ministry of Finance		
2. Sector		ADB Financing (\$ million)	
✓ Transport	Road transport (non-urban)		122.60
		Total	122.60
3. Strategic Agenda		Climate Change Information	
Subcomponents			
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change		Gender Equity and Mainstreaming	
Components			
Partnerships (PAR)	Civil society organizations Implementation	No gender elements (NGE)	✓
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization:		Low	
7. Safeguard Categorization		Environment: B Involuntary Resettlement: B Indigenous Peoples: C	
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		122.60	
Sovereign Project loan: Ordinary capital resources		122.60	
Cofinancing		72.40	
Department for International Development		72.40	
Counterpart		40.00	
Government		40.00	
Total		235.00	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		No	

I. BACKGROUND

1. On 27 June 2014, the Asian Development Bank (ADB) approved a loan of \$195 million from its ordinary capital resources for the National Highway Network Development in Balochistan Project.¹ The project cost was estimated at \$235 million, of which \$40 million was to be financed by the Government of Pakistan. The loan was declared effective on 10 August 2015 with a closing date of 31 December 2018. The expected impact of the project is an accessible, affordable, and safe national highway network in Balochistan. The expected outcome is reduced transport costs between Balochistan and the country's political and industrial centers. To this end, the project will (i) rehabilitate (a) 81 km of a two-lane road between Zhob and Mughal Kot (N-50), and (b) 120 km of a two-lane road between Qila Saifullah and Waghum Rud (N-70); and (ii) develop community facilitation centers along the project roads. The executing agency finished evaluating technical bids for the project roads on 11 August 2015 and will award the civil works contracts by October 2015.

II. PROPOSED ADMINISTRATION OF COFINANCING

A. Rationale

2. In early 2014, the Department for International Development of the United Kingdom (DFID) expressed interest in cofinancing the project through the Pakistan Economic Corridor Program.² As the business case of this program was not established before the ADB Board of Directors approved the loan for the project, the project financing plan did not include the DFID grant; however, it noted the DFID's interest and indicated that any such financing would be applied to the project on a joint basis and be fully administered by ADB.

3. The DFID approved the program on 15 January 2015. On 25 June 2015, ADB and the DFID signed the program memorandum of understanding including, among other things, the DFID grant cofinancing the project in the amount of £46.1 million, excluding ADB's administration fees.³ This grant will finance civil works under the project.

B. Administration of Cofinancing

4. In keeping with the agreement in the memorandum of understanding, the DFID grant must replace part of the ADB project loan. This substitution requires that (i) ADB administers the DFID grant in the amount of £46.1 million (equivalent to \$72.4 million), (ii) the project financing plan is changed as detailed in the table below, and (iii) a corresponding amount of the original loan is cancelled.⁴ The DFID grant will cofinance the project largely in keeping with the terms

¹ ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for the National Highway Network Development in Balochistan Project in Pakistan*. Manila.

² The Pakistan Economic Corridor Program aims to promote regional connectivity and trade, which is expected to encourage economic growth, create jobs, and contribute to regional stability. The program comprises (i) transport infrastructure investments and (ii) support for institutional frameworks enabling the development of fiscally responsible public-private partnerships relevant to infrastructure development. The program will contribute up to £262 million (the equivalent of \$411 million when the memorandum of understanding was signed) to scale up and increase the impact of ADB's infrastructure and economic corridors program. ADB will administer the program. The DFID's contribution will consist of (i) £210 million for transport investment projects; (ii) £40 million for public-private partnership investment projects; and (iii) £12 million for technical assistance covering road safety, transport policies and economic corridor planning, axle-load control and asset management, and an equitable tolling policy.

³ ADB will set aside the administration fee at the program level.

⁴ The revised design and monitoring framework is in Appendix 1.

and conditions set out in the draft externally financed grant agreement in Appendix 2. The government has agreed to replace part of the ADB loan with the DFID grant.

Revised Financing Plan				
Source	Before Substitution		After Substitution	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
Asian Development Bank				
Ordinary capital resources (loan)	195.0	83.0	122.6	52.2
Government of the United Kingdom	0.0	0.0	72.4	30.8
Government of Pakistan	40.0	17.0	40.0	17.0
Total	235.0	100.0	235.0	100.0

Source: Asian Development Bank estimates.

5. If the Board approves ADB administration of DFID grant funds, approval of the changed financing plan, whereby part of the ADB loan will be cancelled and replaced with the DFID grant, will be sought in accordance with the ADB Project Administration Instructions. This change will not affect the project output, cost estimates, implementation period, or procurement arrangements. It will help develop Pakistan's national highway network in Balochistan and will strengthen the strategic partnership with the DFID to improve Pakistan's transport network and sector management.

III. THE PRESIDENT'S RECOMMENDATION

6. The President recommends that the Board approve ADB administering a grant not exceeding the equivalent of \$72.4 million (£46.1 million) to be provided by the Government of the United Kingdom to the Islamic Republic of Pakistan for the National Highway Network Development in Balochistan Project.

REVISED DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with: Accessible, affordable, and safe road network in Balochistan. ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Reduced transport costs from Balochistan to the political and industrial centers of the country	a. By 2018, travel times reduced to 28 hours from Quetta to Islamabad (2013 baseline: 33 hours), 25 hours from Quetta to Peshawar (2013 baseline: 30 hours), and 22 hours from Quetta to Multan (2013 baseline: 28 hours)	a. Supervision consultant's baseline survey and NHA traffic statistics	Poor security and political instability disrupts construction work during implementation and traffic flow after completion.
Outputs 1. Two two-lane roads (Zhub–Mughal Kot and Qila Saifullah–Waghum Rud) rehabilitated 2. Community facilitation centers integrated into the improved mobility through rehabilitated project roads	1a. 201 km of roads (Zhub–Mughal Kot: 81 km; Qila Saifullah–Waghum Rud: 120 km) rehabilitated by 2018 with an IRI of no higher than four (2013 baseline: none) 2a. Five community facilitation centers developed along the project roads by 2018 (2013 baseline: none)	1a.–2a. Supervision consultant's project progress and completion reports	Few internationally qualified contractors and consultants are interested in the work. The procurement process is unduly prolonged.
Activities with Milestones			
1. Road rehabilitation			
1.1 Bidding for contractor and consultant			
1.1.1 The NHA submits bid evaluation reports for a contractor in July 2015 and for a consultant by October 2015.			
1.1.2 ADB evaluates and approves the NHA contractor bid evaluation report in August 2015.			
1.1.3 The NHA awards the contracts for the civil works and the design review and supervision consultancy by November 2015.			
1.2. Construction work			
1.2.1 The NHA mobilizes the consultant and contractor by December 2015.			
1.2.2 The consultant reviews the detailed design by January 2016.			
1.2.3 The contractor begins construction in February 2016 and completes the civil works by February 2018.			
2. Community facilitation centers			
2.1 The NHA identifies potential rural locations for the development of community facilitation centers by February 2016.			
2.2 The NHA conducts an in-depth study of the livelihoods and needs of women residing in the project area, and identifies potential elements benefiting them by June 2016.			
2.3 The NHA assesses community needs and designs the socio-economic facilities to be provided by September 2016.			
2.4 The engineering designs are developed by the consultant by December 2016 and built by the contractor by June 2018.			
Inputs			
ADB: \$122.6 million (ordinary capital resources)			
Government of Pakistan: \$40 million			
Government of the United Kingdom: \$72.4 million (grant)			
Assumptions for Partner Financing			
Not Applicable.			

ADB = Asian Development Bank, IRI = International Roughness Index, km = kilometer, NHA = National Highway Authority.
Source: Asian Development Bank.

^a Impact statement in the approved RRP, 27 June 2014.

EXTERNALLY FINANCED GRANT AGREEMENT

GRANT NUMBER ____ - ____ (EF)

GRANT AGREEMENT
(Externally Financed)

(National Highway Network Development in Balochistan Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED _____

**GRANT AGREEMENT
(Externally Financed)**

GRANT AGREEMENT dated _____ between ISLAMIC REPUBLIC OF PAKISTAN (“Recipient”) and ASIAN DEVELOPMENT BANK (“ADB”).

WHEREAS

(A) by a loan agreement dated 12 May 2015 between the Recipient and ADB (“ADB Loan Agreement”), ADB has agreed to make a loan to the Recipient from ADB’s ordinary capital resources in the amount of one hundred ninety five million Dollars (\$195,000,000) (“ADB Loan”) for the purposes of the Project described in Schedule 1 to the ADB Loan Agreement;

(B) the Government of the United Kingdom of Great Britain and Northern Ireland acting through the Department of International Development (“DFID”) has agreed to provide a grant, to be administered by ADB, for the purposes of cofinancing expenditures under investment projects under DFID’s Pakistan Economic Corridors Program, including expenditures under the Project;

(C) by a memorandum of understanding dated 25 June 2015 between ADB and DFID (“Cofinancing Agreement”), DFID has agreed to provide, and ADB has agreed to administer, among other things, the grant provided for herein upon the terms and conditions set out in the Cofinancing Agreement;

(D) ADB has agreed to make the proceeds of the grant from DFID available to the Recipient upon the terms and conditions set forth herein; and

(E) the ADB Loan will be cancelled in part by the same amount, as will be reflected in an amendment to the ADB Loan Agreement to be executed between the Recipient and ADB.

NOW THEREFORE the parties agree as follows:

ARTICLE I

Grant Regulations; Definitions

Section 1.01. All provisions of the Externally Financed Grant Regulations of ADB, dated 8 April 2009 (“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 and in the ADB Loan Agreement 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) "Pound" means the lawful currency of the United Kingdom; and

(b) "Works" means construction or civil works to be financed out of the proceeds of the Grant, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding Consulting Services.

ARTICLE II

The Grant

Section 2.01. (a) ADB agrees to make available to the Recipient a grant from DFID in the amount of seventy two million four hundred thousand Dollars (\$72,400,000), as such amount may be adjusted from time to time in accordance with subsection (b) hereinafter.

(b) The amount of the Grant shall be adjusted from time to time to account for currency fluctuations, such that the amount of the Grant, denominated in Dollars, shall be equivalent to forty six million one hundred thousand Pounds (£46,100,000) at the time that ADB converted the resources made available to ADB by DFID for the purposes of the Grant.

ARTICLE III

Use of Proceeds of the Grant

Section 3.01. The Recipient shall make the proceeds of the Grant available to NHA and shall cause NHA to apply such proceeds to the financing of expenditures on the Project in accordance with the provisions of this Grant 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 4 to the ADB Loan Agreement.

Section 3.04. Withdrawals from the Grant Account in respect of Works shall be made only on account of expenditures relating to:

(a) Works which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and

- (b) Works which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 31 December 2018 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 Schedule 5 to the ADB Loan Agreement.

Section 4.02. (a) The Recipient shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with accounting principles acceptable to ADB; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements and the use of the Grant proceeds) and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website.

(c) The Recipient shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and the Recipient's financial affairs where they relate to the Project with the auditors appointed pursuant to subsection (a)(iii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the Recipient, unless the Recipient shall otherwise agree.

Section 4.03. The Recipient shall enable ADB's representatives to inspect the Project and the Works, and any relevant records and documents.

Section 4.04. The Recipient acknowledges and agrees that this Grant Agreement is entered into by ADB, not in its individual capacity, but as grant administrator for DFID. Accordingly, the Recipient agrees that (i) it may only withdraw Grant proceeds to the extent that ADB has received proceeds for the Grant from DFID, and (ii) that ADB does not

assume any obligations or responsibilities of DFID in respect of the Project or the Grant other than those set out in this Grant Agreement.

ARTICLE V

Suspension

Section 5.01. The following is specified as an additional event 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: the ADB Loan shall have become liable for suspension or cancellation in accordance with the terms of the ADB Loan Agreement.

ARTICLE VI

Effectiveness

Section 6.01. 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

Miscellaneous

Section 7.01. The Secretary, Economic Affairs Division of the Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

Section 7.02. 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 Finance, Revenue, Economic Affairs, Statistics and
Privatization
Government of Pakistan
Islamabad, Pakistan

Facsimile Numbers:

(92-51) 920-4086
(92-51) 920-2019

For ADB

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

Facsimile Numbers:

(632) 636-2444
(632) 636-2340.

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 _____
[Name and designation]

ASIAN DEVELOPMENT BANK

By _____
[Name and designation]

SCHEDULE 1

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 disbursed on the basis of the withdrawal percentage for each item of expenditure 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.

Attachment to Schedule 1**TABLE**

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (National Highway Network Development in Balochistan Project)			
Number	Item	Total Amount Allocated for DFID Financing (\$) Category	Basis for Withdrawal from the Grant Account
1	Civil Works	70,100,000	53 percent of total expenditure claimed
2	Unallocated*	2,300,000	
	Total	72,400,000	

* This amount also serves as a reserve for currency fluctuations.