FRAMEWORK FINANCING AGREEMENT
(PAK: CAREC Corridor Development Investment Program)

Parties

This Framework Financing Agreement ("FFA") dated XX August 2017 is between the Islamic Republic of Pakistan (Pakistan) and Asian Development Bank ("ADB").

MFF Investment Program

Pakistan is committed to and will implement the CAREC Corridor Development Investment Program, which is an integral part of the Investment Program. Both the CAREC Corridor Development Investment Program and the Investment Program are described in Schedule 1 hereto.

The total cost of the CAREC Corridor Development Investment Program over the period 2018 to 2027 is expected to be $925 million equivalent. The total cost of the Investment Program, over the period 2014 to 2027 is expected to be $7.7 billion equivalent.

Multitranche Financing Facility

The Multitranche Financing Facility (the Facility) is intended to finance projects, under the Investment Program, provided that such projects comply with the criteria set out in Schedule 4 hereto and that understandings set out in this FFA are complied with.

These may include (i) constructing and rehabilitating 747 km of N55 and (ii) capacity development of NHA.

This FFA does not constitute a legal obligation on the part of ADB to commit any financing. ADB has the right to deny any financing request made by Pakistan, cancel the uncommitted portion of the Facility, and withdraw Pakistan's right to request any financing tranche under the Facility. Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.

This FFA does not constitute a legal obligation on the part of Pakistan to request any financing. Pakistan has the right not to request any financing under the Facility. Pakistan also has the right at any time to cancel any uncommitted portion of the Facility.

Pakistan and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect to the other parties. The written notice will provide an explanation for the cancellation or refusal and, in the case of a cancellation, specify the date on which the cancellation takes effect. ADB may cancel the facility or reject a financing request when there is a material noncompliance with ADB policies or FFA undertakings; or there are undue delays in the submission of the financing requests or the implementation of the investment program.

Financing Plan

The financing plan for the CAREC Corridor Development Investment Program is summarized below.

Financing Source	**Total** ($)	**Share** (%) **of Total**
Pakistan	125	14
Asian Development Bank	800	86
Sub Total (CAREC Corridor Development Investment Program)	**925**	**100**
Pakistan	2,802	26
Asian Development Bank	2,030	37
Other Development Partners	2,851	37
Total (Investment Program)	**7,683**	**100**

Financing Terms

ADB will provide loans to finance projects under the Investment Program, as and when the latter are ready for financing, provided, Pakistan is in compliance with the understandings hereunder, and the projects are in line with those same understandings. Each loan will constitute a tranche.

Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project, capital market conditions, and ADB's financing policies, all prevailing on the date of signing the legal agreement for such tranche.

Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

Commitment charges or guarantee fees are not payable on the Facility. They are payable only on financing actually committed by ADB as a loan or guarantee. ADB rules on commitment charges and guarantee fees, which are in effect when the legal agreements are signed for a tranche, will apply with respect to such tranche.

Amount

The maximum financing amount available under the Facility is Eight Hundred Million Dollars ($800 million) It will be provided in individual tranches from ADB's Ordinary Capital Resources.

	Availability Period
	The last date on which the Facility may be utilized is 31 December 2027. The last financing tranche is expected to be executed no later than 31 December 2025.
	Terms and Conditions
	Pakistan will cause the proceeds of each tranche to be applied to the financing of expenditures of the Investment Program, in accordance with conditions set forth in this FFA and the legal agreements for each tranche.
Execution	The Executing Agency will be the National Highway Authority (NHA). The Executing Agency will implement the Investment Program in accordance with the principles set forth in Schedule 1 to this Agreement, and as supplemented in the legal agreements for each tranche.
Periodic Financing Requests	Pakistan may request, and ADB may agree, to provide loans under the Facility to finance the Investment Program upon the submission of a Periodic Financing Request(PFR). Each PFR should be submitted by Pakistan. Pakistan will make available to the Project Executing Agency, the proceeds of the tranche in accordance with the related PFR, and the legal agreements for the tranche.
	Each individual tranche will be for an amount of no less than One Hundred and Fifty Million Dollars ($150 million), or its equivalent. ADB will review the PFRs and, if found satisfactory, prepare the related legal agreements.
	The projects for which financing is requested under the PFR will be subject to the selection criteria set out in Schedule 4 hereto, achievement of undertakings as set out in Schedule 6 to this FFA, satisfactory due diligence, and preparation of relevant safeguard and fiduciary frameworks and other documents. The Facility will be implemented in accordance with the general framework set out in Schedule 3 to this FFA, and the Facility Administration Manual agreed between Pakistan and ADB.
	Until notice is otherwise given by Pakistan, the National Highway Authority will be Pakistan's authorized representative for purposes of executing PFRs.
General Implementation Framework	The Facility will be implemented in accordance with the general framework set out in Schedule 3 hereto.
Procedures	Tranches to be provided under the Facility will be subject to following procedures and undertakings:

(i) Pakistan will have notified ADB of a forthcoming PFR in advance of the submission of the PFR.

(ii) Pakistan will have submitted a PFR in the format agreed with ADB.

(iii) ADB may, in its sole discretion, decline to authorize the negotiation and execution of any legal agreement for a tranche.

(iv) If ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed by the parties.

PFR information

The PFR will substantially be in the form attached hereto, and will contain the following details:

(i) Loan, grant, guarantee, or cofinancing amount;

(ii) Description of projects to be financed;

(iii) Cost estimates and financing plan;

(iv) Implementation arrangements specific to the projects;

(v) Confirmation of the continuing validity of and adherence to the understanding in this Agreement;

(vi) Confirmation of compliance with the provisions under previous Loan Agreement(s) and Project Agreement(s), as appropriate; and

(vii) Other information as may be required under the Facility Administration Manual, or reasonably requested by ADB.

Safeguards[1]

Attached as Schedule 5 are references to the Safeguard Frameworks that will be complied with during the implementation of the Facility.

ADB's Safeguard Policies in effect as of the date of signing of legal agreements for a tranche will be applied with respect to the projects financed under such financing tranche.

Procurement

All goods and services to be financed under the Facility will be procured in accordance with ADB's Procurement Guidelines (2015, as amended from time to time).

Consulting Services

All consulting services to be financed under the Facility will be procured in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).

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[1] ADB. 2009. *Safeguard Policy Statement*. Manila.

Advance contracting; Retroactive financing	Under each tranche, ADB may, subject to its policies and procedures, allow on request (a) advance contracting of goods, works, and consulting services and (b) retroactive financing of eligible expenditures for goods, works, and consulting services up to 20% of proposed individual loan, incurred prior to loan effectiveness but not earlier than 12 months before the date of signing of the related legal agreement. The client acknowledges that any approval of advance contracting and/or retroactive financing will not constitute a commitment by ADB to finance the related project.
Disbursements	Disbursement will be made in accordance with ADB's Disbursement Handbook (2017, as amended from time to time).
Monitoring, Evaluation, and Reporting Arrangements	Within 3 months of the effective date of the loan agreement for every tranche under the Facility, the NHA will establish a Project Performance Management System (PPMS) in a form and substance acceptable to ADB, in accordance with the Investment Program and project performance indicators agreed between ADB and NHA. The Design and Monitoring Framework for the Facility is set forth at Schedule 2 hereto. NHA will undertake periodic project performance review under each individual Loan, as also for the CAREC Corridors Development Investment Program, in accordance with the PPMS to evaluate the scope, implementation arrangements, progress and achievements of objectives of the related project and overall Program. NHA will prepare and submit to ADB quarterly progress reports for the individual project under the Facility. The reports will include a description of physical progress, problems, and difficulties encountered and a summary of financial accounts that will consist of loan expenditures during the period, year to date, and total to date, and include a report on progress of the implementation of mitigation measures as specified in the contracts and EMP. A project completion report will be submitted within three months following completion of each project. A Facility completion report will be submitted within 3 months after completion of the Facility.
Undertakings	Attached as Schedule 6 are the undertakings provided by Pakistan.

ISLAMIC REPUBLIC OF PAKISTAN	ASIAN DEVELOPMENT BANK
By ____________________________	By __________________________
Name of Authorized Representative	Name of Authorized Representative

SCHEDULE 1

MFF CONSTITUENTS

A. Road Map

1. The transport sector contributes about 10% to Pakistan's gross domestic product and more than 6% to the country's overall employment. Upgrading Pakistan's transportation system is critical to both export competitiveness and economic growth. Roads are the predominant mode of transport in Pakistan, accounting for over 92% of passenger and 96% of freight traffic in 2010; total inland traffic by road was estimated at 325 billion passenger-kilometers (km), and by rail 59 billion freight ton-km.

2. Pakistan's road network of 263,000 km consists of about 12,500 km of national highways, 93,000 km of provincial highways, with the remainder classified as either district or urban roads. The national highway network, which is less than 5% of the total road network, caters to about 80% of commercial traffic. The National Highway Authority (NHA) is responsible for national highways, including access-controlled motorways and expressways, while provincial and district administrators are responsible for provincial highways and district roads. Despite the high reliance on road transport, the quality of the road infrastructure severely constrains capacity. Although the quality of the national highways has considerably improved, thanks to continuous investments and better road asset management, the overall condition is wanting—only 50% of highways are assessed as being in good or fair condition. The motorways are maintained much better—35% are in good condition and 65% in fair condition—thanks to access control of overloaded trucks, and nonmotorized and slow-moving traffic. The condition of the provincial highways is worse than that of the national highway network. Many are either permanently impassable or subject to closure during bad weather.

3. Located at the crossroads of Afghanistan, Central Asia, the People's Republic of China (PRC), India, and Iran, Pakistan has huge potential to become a regional transport and trade hub. It can exploit its national capabilities and resources to support trade-based economic growth mainly by playing the role of a transit trade hub. However, transit trade through Pakistan is still limited while trade remains maritime-centric, aligned with the southern gateway port of Karachi, and focuses on major global developed markets like North American, Europe, and Middle Eastern countries. Land-based regional trade with its neighboring countries is meager, accounting for less than 1% of the intraregional trade. Poor transport and border cross-point infrastructure and costly transport and cross-border services pose an obstacle to exploiting the untapped potential.

4. Since 1985, Asian Development Bank (ADB) had been involved in Pakistan's transport sector development. Before 1995, ADB's assistance to Pakistan had focused on improvement of rural access roads to ensure all-weather access to villages—to complement ADB's then focus on agriculture sector development. From 1995, the perspective was expanded to national connectivity for economic growth in general, and the assistance started to cover provincial and national highways. Since 2005, ADB assistance has focused on the trade corridor and regional connectivity to help government take advantage of its strategic location and act as a hub for subregional transport.

5. In 2005, the government launched the National Trade Corridor Improvement Program to reduce the cost of trade and transport logistics and raise the quality of services to international standards. As part of the program, the National Highway Authority (NHA) prepared a comprehensive national highway development plan for 2006–2015 for upgrading the national

highway network and extending the motorway system. The NHA's plan intended to improve 6,500 kilometers (km) of existing roads and construct 2,500 km of new expressways and motorways with a total cost of $8 billion, about half of which would be financed by development agencies including ADB and the World Bank. In 2007, ADB approved an MFF of $900 million for the National Trade Corridor Highway Investment Program (NTCHIP) to assist the government in implementing the National Trade Corridor Improvement Program. In 2015, ADB approved the Regional Improving Border Services Project of $250 million to (i) improve border crossing point infrastructure and facilities at Chaman, Torkham, and Wagha; (ii) assist the government in establishing the Pakistan Land Port Authority; and (iii) establish a border point management regime and enhance knowledge and skills of border point operating agencies.

6. Government's transport sector strategy is highlighted in the Vision 2025.[1] Vision 2025 would establish an efficient and integrated transportation system that facilitates the development of a competitive economy. Key related targets are to ensure reduction in transportation costs and promote regional connectivity through enhanced physical infrastructure development (physical connectivity), effective institutional arrangements (institutional connectivity), and empowered people (people-to-people connectivity).

7. In 2011, Pakistan joined the CAREC Program. Pakistan's transport corridors offer the shortest route to the sea for landlocked Afghanistan, Central Asia, and Xinjiang province of PRC. Pakistan's accession to CAREC enables subregions in Asia and Europe to be virtually integrated and seamlessly connected from East Asia through South Asia and Central Asia to Europe. In 2013, the CAREC Transport Corridors were extended to Pakistan to provide Afghanistan, Central Asia, and PRC with connection to the ports of Gwadar and Karachi on the Arabian Sea. The CAREC Transport and Trade Facilitation Strategy 2020 endorsed by the CAREC ministers at the 12th Ministerial conference in 2013 proposes $5.6 billion of investment projects to build the extended CAREC corridors in Pakistan.

8. Vision 2025's strategic direction for promoting regional connectivity is evolved into government's two key regional cooperation and integration initiatives, i.e., the CAREC Program (Para. 4) and the CPEC (Para. 5). The CAREC TTFS 2020 set out operational priorities of the CAREC Program. Operational priorities are given to (i) development of multimodal corridor network focusing on road and rail network development, logistics center development, and border crossing points improvement; (ii) improvement of trade and border crossing services focusing on coordinated border management, customs modernization, integrated trade facilitation, and single window development; and (iii) improvement of operational and institutional effectiveness focusing on road maintenance, road safety, designated rail corridor, and policies and institutional development. These priorities are well aligned with Vision 2025's strategic direction.

B. Strategic Context

9. The Country Partnership Strategy 2015-2019 for Pakistan highlights its strategic focus on regional integration in that ADB will help strengthen regional connectivity in transport and energy, such as with support (i) to the extension of Central Asia Regional Economic Cooperation (CAREC) corridors to the ports of Gwadar and Karachi, (ii) to the Turkmenistan–Afghanistan–Pakistan–India natural gas pipeline project, and (iii) for transport and trade facilitation with the emphasis on development of economic corridors to expand economic opportunities for communities in surrounding areas.

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[1] Government of Pakistan. 2014. *Pakistan Vision 2025.*

10. Pakistan and PRC agreed to develop the China-Pakistan Economic Corridor (CPEC) to improve transport and energy infrastructure in Pakistan and enhance trade links between the two countries. The CPEC will expand and transform transport and energy infrastructure in Pakistan so that Pakistan can exploit its potential as a regional transport and trade hub and simultaneously will enable PRC to integrate its Western regions and neighboring countries into the Silk Road economic belt initiatives.

11. The CPEC will connect the Gwadar Port to the Kashgar in the Xinjiang province in PRC via a network of highways, railways, and pipelines. Three CPEC corridors are agreed on either to build new-aligned motorways or to follow the existing main trunk roads. The Eastern corridor follows the existing motorways (M1-M4) and runs along the main backbone highway of N5 through a new alignment from Lahore to Karachi to Peshawar. At the Barahma Bahtar interchange on M1, it takes the Karakoram Highway toward the border with PRC. The majority of the Eastern corridor will be the 1,152 km of the Karachi-Lahore motorway. The Western corridor connects the Karakoram Highway to the Gwadar Port through Balochistan mainly following the existing N50, N25, and N85. The Central corridor starts from Islamabad connected to DI Khan through a newly-aligned motorway; then runs down along the existing N55, the Indus Highway located at the Western side of the Indus River; then merges into M8, which is under construction, at Shahdadkot; and connects to Basima on the Western corridor to ultimately reach the Gwadar Port. PRC's assistance for CPEC road development is concentrated on the Karakoram Highway, the Karachi-Lahore motorway, and some key sections of the Western corridor with no assistance planned for the Central corridor.

12. The CAREC corridors in Pakistan were identified to link CAREC Corridor 5 and 6 extended from Afghanistan to two main gateway ports, the Karachi Port and the Gwadar Port. The Eastern leg of the CAREC corridor in Pakistan connects the CAREC Corridor 6 at the border point, Torkham and runs through M1-M4 to Multan; takes N70 to DG Khan crossing the Indus River; then takes N55, the Western side of the Indus River, and runs down to Jamshoro; and takes M9 under construction to reach the Karachi Port. The Western leg of the CAREC corridor in Pakistan connects the CAREC Corridor 5 at the border point, Chaman and runs to Quetta; then takes N25 and N85 passing through Balochistan to reach the Gwadar Port. The Western leg follows the CPEC Western corridor from Quetta to the Gwadar Port.

13. Taking into account PRC assistance concentrating on the CPEC Eastern corridor and the CPEC Western corridor which more or less overlaps with the Western leg of the CAREC corridor in Pakistan, the proposed MFF is designed to improve mainly the Eastern leg of the CAREC corridor in Pakistan, particularly from DG Khan to Jamshoro of N55 and some spinoff sections of N55 north of DG Khan.

C. Policy Framework

14. Through institutional capacity development and institutional reforms aided by development partners, the NHA has become a capable road agency despite structural constraints. It managed to (i) establish the road maintenance fund and secure a stable source of road maintenance expenditure; (ii) establish the road asset management system, which allows more efficient use of scarce resources; and (iii) establish the National Highway and Motorway Police, which contributes to controlling overloading and reducing traffic violations and accidents on motorways and national highways. Despite these achievements, sector reforms should continue, particularly for (i) establishing a national transport policy together with NHA's business plan; (ii) enhancing the sustainability of road networks and preserving road assets; and (iii) establishing a national policy for road safety and promoting public awareness.

15. **Transport policy framework.** A national transport policy is a prerequisite for the effective development of a sustainable and cost-effective transport system. Recognizing this, the government developed a draft national transport policy in 2008 with the assistance of the ADB. It covers transport policy and governance; institutional development; policy implementation and management capabilities; and infrastructure financing, investment, and maintenance. This comprehensive national transport policy, which was supposed to guide the government as well as aid agencies, was however not endorsed by the highest authority and shelved. In 2014, the Ministry of Planning, Development and Reforms, Ministry of Communications (including the NHA), the Ministry of Railways, the Ministry of Ports and Shipping among other relevant government ministries and agencies revived their interest and advocated that the policy be updated and duly established as a foundation for the long-term sustainability of the transport sector.

16. In November 2015, ADB approved capacity development technical assistance of $15.4 million for the Enabling Economic Corridors through Sustainable Transport Sector Development as part of the Government of the United Kingdom’s assistance through the Pakistan Economic Corridors Program. This assistance will help develop a national transport policy and master plan. A consultant team was mobilized in 2016. The work is being steered by the Cabinet Committee on Infrastructure, chaired by the Minister for Planning, Development and Reforms and consisting of key relevant ministries and agencies at federal and provincial levels. In February 2017, a workshop was conducted as part of the first meeting of the steering committee, attended by senior government officials from the federal and provincial governments, development partners, private sector, and academia. A technical working group was formed to prepare the national transport policy, supported by ADB staff and consultants, and is meeting on a monthly basis. The draft national transport policy will be prepared by December 2017. The government will get the draft national transport policy endorsed by the highest authority of the government to be effective by December 2018.

17. **Sustainability of Road Network and Road Assets Preservation**. The road transport cost consists of (i) the road user/vehicle operating cost, (ii) the road construction cost, and (iii) the road operation and maintenance cost. The road user and vehicle operating cost is dominant—normally 50% of the total cost—while the road construction cost is 15%, and the road operation and maintenance is 35%. Hence, managing and controlling the road user and vehicle operating cost is critical to managing the adverse impact of the road transport cost to the economy. The road user and vehicle operating cost consists of fuel consumption, oil consumption, tire wear and tear, parts replacement, vehicle depreciation, travel time, and accidents—all of which are closely linked to road quality. Data show that it increases gradually in proportion to the international roughness index (IRI) until the IRI reaches about 4, but beyond 4 it grows exponentially. Maintaining road quality within a tolerable level is thus important to stem the road transport cost in the economy.

18. Road investment and road maintenance are financed by different funding mechanisms. Road investment is mainly funded from the annual budget allocation to the federal Public Sector Development Program. In contrast, road maintenance is funded by a dedicated road maintenance fund outside of the federal fiscal budget envelope, the use of which is earmarked only for road maintenance.

19. Through lengthy policy dialogues led by key aid agencies, the government established the dedicated road maintenance fund in 2003, which is financed by toll revenue from the motorways and national highways, federal grants, and other road revenues. Accordingly, the NHA has secured a stable source for road maintenance expenditure, free from federal fiscal budget

allocations that are usually influenced by political consideration. This has enabled the NHA to adequately plan and effectively prioritize maintenance needs, setting priorities according to the rankings of the road asset management system. In contrast, federal budget allocations for road investment have been erratic and unstable, let alone their being insufficient, and NHA could not effectively plan and fund road development, causing an inefficient use of scarce resources.

20. The NHA established the Road Asset Management Directorate, and installed a sophisticated road asset management system (RAMS) based on the Highway Development and Management Model-4 (HDM-4) aided by various development partners including ADB. The system monitors the road conditions of all national highways by regularly collecting pavement condition data, traffic data, falling weight deflectometer data, roughness data, road user and vehicle operating cost data, socioeconomic data, and revenue data from toll plazas. Fed by these data, the system generates the annual road maintenance plan based on the strategy and program analysis, focusing on preventive maintenance. This systematic way of prioritizing road maintenance prevents scarce resources from being misused.

21. As shown in the table below for the road expenditures, the maintenance resources generated through the road maintenance fund have been consistently lower than the unconstrained maintenance requirement calculated by RAMS through HDM-4, around 55%–59% for 2009-2014 but abruptly plummeted to 46% and 33% for 2014 and 2015.[2] RAMS calculates the unconstrained maintenance requirement to upgrade all roads to the condition of newly-paved road (IRI 2.0). Hence, the unconstrained requirement envisages an ideal situation with no resource constraint. Constrained by scarce national resources, the NHA aims to maintain the roads in an average IRI of 3.5 (currently the average IRI is around 4.0), implying the vehicle operating cost of road users to be kept 30%–40% higher than in the ideal situation of IRI 2.0. It is a tradeoff between whether the federal government collects more taxes (or reprioritize fiscal resources) and spend them to maintain the roads at IRI 2.0 or whether NHA maintains the roads at IRI 3.5 with constrained resources while road users bear the cost in the form of higher vehicle operating cost.

Road Expenditures

	Actual						
Item	**FY2009**	**FY2010**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**
Construction (PSDP) (PRs billion)	32.3	44.7	28.3	56.5	50.7	57.6	111.5
Annual growth (%)	12.8	38.4	(36.6)	99.6	(10.3)	13.6	93.5
Maintenance (PRs billion)							
Toll revenue	6.5	8.3	10.4	12.4	12.8	14.0	16.0
Federal grants	0.9	1.0	1.1	1.2	1.4	1.5	1.6
Others (police fines, ROW revenue, weighbridges)	1.4	2.0	1.6	2.5	2.3	2.9	4.6
Total (PRs billion)	**8.8**	**11.3**	**13.1**	**16.1**	**16.5**	**18.4**	**22.2**
Annual growth (%)		28.3	15.9	22.9	2.5	11.5	20.6
Unconstrained maintenance requirement under HDM-4 (PRs billion)	15.8	19.0	25.1	28.6	28.0	40.4	67.9
Actual maintenance versus unconstrained requirement (%)	55.6	59.4	52.2	56.3	58.9	45.5	32.7

( ) = negative, FY = fiscal year, HDM-4 = Highway Development and Management Model-4, NA = not available, PSDP = Public Sector Development Program, ROW = right-of-way.
Source: National Highway Authority Road Asset Management System Report.

[2] Growing shortfall of maintenance fund since 2014 was caused not by shrinkage of road revenue (road revenue shows a consistent increase year by year) but by steep hikes of unconstrained maintenance requirements that stemmed from heavy floods in 2010 and 2014 (many flood-damaged roads were left unattended despite NHA's effort for post-flood rehabilitation and degenerated into unmaintainable category with IRI 6.0–7.0, so-called maintenance backlogs).

22. The distribution of IRI of NHA roads takes a U-shape, not a typical bell-shaped normal curve, the bottom of U-shape centered on IRI 4.0–5.0. About a half of total roads have less than 3.0 IRI while about a quarter have extremely high IRI of 6.0–7.0. This category of high IRI roads are so-called maintenance backlogs. While RAMS calculates the unconstrained maintenance requirements to upgrade all roads uniformly to the condition of newly-paved roads regardless of their current conditions, reconstruction of maintenance backlogged roads should be financed separately by road investment fund, not by road maintenance fund, since maintenance backlogged roads are considered unmaintainable and their reconstruction goes beyond normal maintenance works. If the roads at the right tail of the U-shape distribution, i.e., maintenance backlogged roads, are reconstructed and moved to the left tail of IRI 2.0, the unconstrained maintenance requirements will be considerably reduced and NHA will achieve their aim to maintain the roads at the average IRI 3.5 with a minimal increase in maintenance fund.

23. NHA plans to reconstruct 1,113 km of maintenance backlogged roads with residual life less than 2 years through the assistance of development partners. ADB will assist NHA to reconstruct 498 km out of them and processes the Sustainable National Highway Maintenance Project to be submitted to the Board in 2019.

24. Vehicle overloading is a major cause of premature pavement deterioration and an impediment to sustainable development of the highway network. Overloading reduces the economic benefits of road projects and increases maintenance costs. Two-axle trucks, accounting for over 50% of truck traffic, contribute most to overloading. NHA efforts to monitor and control overloading through weighing stations and fining violations are ineffective, as no unloading facilities or storage spaces are available at the weighing stations.[3] The excess cargo must be collected by the haulage company or some such other operator and removed from the weigh station premises before the original truck is permitted to proceed.

25. The cause of rampant overloading is the archaic trucking industry. The trucking sector has a small fleet of owners who usually own less than five vehicles. The trucking fleet is largely outdated and runs on underpowered engines. High import tariffs on high-capacity multi-axle trucks protect local manufacturers producing low-capacity and low-powered trucks, and prevent the trucking sector from improving its fleet. This makes the trucking sector highly competitive, characterized by low barriers to entry, many small operators, and low freight rates. Many trucks operate long hours and carry excessive loads while traveling at low speeds (20 to 25 km/hour). To maintain high revenues, trucks are overloaded. Without restructuring the trucking industry, overloading will persist and NHA's struggling to stem it through law enforcement will become costlier and costlier.

26. **Road safety.** Road safety is a serious issue in Pakistan. Inadequate safety design, insufficient attention to safety, and inadequate traffic enforcement and driver training all contribute to Pakistan's poor safety record. In 2010, an estimated 30,130 people were killed in road collisions.[4] Prerequisites for sustained improvements in road safety include the establishment of a coordinated structure on road safety across government ministries, high-level political support, data for monitoring and target setting, appropriate legislation, and capacity for enforcement. Pakistan is making efforts to address road safety. The creation of a specialized unit on the federal road network, the National Highways & Motorway Police (NH&MP), has resulted in a significant reduction in the number of crashes. In 2010, efforts were made to develop a National Road Safety Council and its secretariat, consisting of all relevant authorities. These efforts, however, have

[3] Monitoring and controlling overloading through weigh stations on motorways is not as ineffective, as the access of overloaded trucks to the motorways can be controlled.
[4] World Health Organization. 2013. *Global Status Report on Road Safety 2013*. Geneva.

fallen short of providing a sustained improvement to road safety mainly due to lack of commitment at high political level, and lack of reliable funding for road safety institutions.

27. In 2016, driven by public pressure after a serious road crash occurred in 2014, the government prepared a draft National Road Safety Framework and Action Plan for National Highways and Motorways. Under the ADB's capacity development technical assistance for the Enabling Economic Corridors through Sustainable Transport Sector Development, ADB is now supporting the government to improve the safety of its road network through a holistic set of measures addressing (i) road safety management systems, (ii) road user behavior, (iii) infrastructure improvements, (iv) vehicle improvements, and (v) post-crash response. The consultant team mobilized in 2016 is now supporting Ministry of Communications to improve and expand the National Road Safety Framework and Action Plan for National Highways and Motorways to cover the entire road network in Pakistan as the National Road Safety Plan. The National Road Safety Plan will cover (i) strengthening road safety management capacity and governance, (ii) developing a national traffic accident data collection system, (iii) enhancing the capacity of traffic police to enforce traffic laws, (iv) bolster road safety engineering (e.g., by introducing a black-spot treatment program and by assisting with road safety audits), (v) improving vehicle safety, (vi) improving the behavior of road users and roll out national road safety awareness campaigns, and (vii) improving the emergency response. As for road safety management and governance, it will propose to develop a road safety act and establish a national road safety body which will coordinate and monitor the implementation of the National Road Safety Plan.

28. **NHA business plan.** In 1991, under the NHA Act, NHA was established to monitor the works and administration of national highways, motorways, expressways and strategic roads. Its function is to plan, develop, operate, repair and maintain all roads entrusted to the NHA by the government. NHA is the custodian of 39 national highways, motorways, expressways and strategic roads, combining for a total length of 12,131 kilometers. Once the National Transport Policy sets the future direction of road network development, the vision and direction needs to be cascaded and transformed into a systematic road network development plan, in case of national highways, motorways, and expressways, in the form of NHA business plan. The NHA business plan is being developed by NHA with the support of World Bank, with initial internal consultations undertaken since September 2016. The consultant team mobilized under the ADB's capacity development technical assistance for the Enabling Economic Corridors through Sustainable Transport Sector Development will support the development of NHA's business plan as required by NHA.

29. As NHA was established as a corporate entity, the government budgetary support for road investment has been in the form of government loan to NHA despite NHA's no debt serviceability with its meager revenues hardly covering road maintenance expenditures. The practice leads to severe distortion of NHA's financial statements, accumulation of unserviceable debts and accrued interests in the balance sheet and huge net loss in the income statement every year because of accrual of interest. As of 30 June 2016, accumulated debt amounts to Rs.1.2 trillion ($12 billion) including accrued interest of Rs.460 billion ($4.6 billion). With these distorted financial statements, NHA cannot mobilize any fund from capital market to promote public-private-partnership. NHA financial statements need to be cleaned up by correcting the distortion. The government will consider (i) equitizing NHA's accumulated debt; (ii) revaluing NHA's road assets at current prices; and (iii) treating future government support to NHA for road investment either as government equity investment or as proper financing modality that NHA can absorb to its financial statements.

D. Investment Program

30. The priority investment projects identified in TTFS 2020 for Pakistan have been refined to cover 23 projects of $7.7 billion. The government's Investment Program adopted the priority investment projects under the TTFS 2020 with slight change in their scope and update of estimated costs.

Investment Program

No.	Project Title	Cost ($ million)	Financier
1.	Realignment of Karakoram Highway at Hunza due to Attabad Lake Overflow, N35	318	Government
2.	Karachi-Hub–Dureji–Sehwan M7 (250 km), New alignment 6-lane Motorway	1,050	Government
3.	Petaro–Sehwan, N55 (130 km two-lane new carriageway)	170	Government and ADB
4.	Sehwan–Ratodero, N55 (199 km two-lane new carriageway)	351	JICA
5.	Ratodero–Rajanpur, N55 (267 km two-lane new carriageway)	370	ADB
6.	Rajanpur–DG Khan, N55 (116 km two-lane new carriageway)	200	Government
7.	DG Khan–DI Khan, N55 (207 km two-lane new carriageway)	290	ADB
8.	Petaro–Sehwan, N55 (130 km existing two-lane rehabilitation)	100	ADB
9.	Ratodero–Shikarpur, N55 (43 km existing two-lane rehabilitation)	30	ADB
10.	Dara Adamkhel–Peshawar, N55 (34 km four-lane highway rehabilitation)	38	ADB
11.	Peshawar–Torkham, N5	150	USAID
12.	Gwadar–Hoshab (M8)	550	Government
13.	BCP expansion and upgrading at Torkham, Wagah, and Chaman	300	ADB
14.	M4 Section 2 (Gojra–Shorkot), four-lane motorway	164	ADB
15.	M4 Section 3 (Shorkot–Khanewal), four-lane motorway	199	ADB
16.	M4 Section 1 (Faisalabad–Gojra), four-lane motorway	170	ADB
17.	Lahore-Peshawar railway upgrading	2,000	PRC
18.	Hoshab–Surab (N85 and N25)	450	Government
19.	Surab–Kalat (N85 and N25)		
20.	E35 Section 1 (Hasanabdal–Havelian) four-lane expressway	283	ADB
21.	E35 Section 2 (Havelian–Mansehra) four-lane expressway	200	PRC
22.	M4 Section 4 (Khanewal–Multan) four-lane motorway	150	ISDB
23.	N70 Muzzafargath-DG Khan section (upgrading of existing road to four-lane dual carriageway)	150	Government
	Total	**7,683**	

ADB = Asian Development Bank; ISDB = Islamic Development Bank; JICA = Japan International Cooperation Agency; PRC =People's Republic of China; USAID = United States Agency for International Development.

31. The CAREC Corridor Development Investment Program will financed the following projects selected from the Investment Program based on road condition, traffic volume, economic rate return, and expected resettlement and environmental impacts.

CAREC Corridors Development Investment Program

Tranche	Project Road	Length (km)	Estimated Cost ($ million)
T1	Petaro-Sehwan (building additional 2-lane carriageway)	66	86.4
	Ratodero-Shikarpur (building additional 2-lane carriageway)	43	60.0
	Dara Adamkhel-Peshawar (rehabilitating existing 4-lane carriageway)	34	40.3
	Subtotal	**143**	**186.7**
T2	Shikarpur-Rajanpur (building additional 2-lane carriageway)	224	302.0
T3	DG Khan-DI Khan (building additional 2-lane carriageway)	207	290.0
	Jamshoro-Sehwan (rehabilitating existing 2-lane carriageway)	130	97.0
	Ratodero-Shikarpur (rehabilitating existing 2-lane carriageway)	43	30.0
	Subtotal	**380**	**417.0**
	Total	**747**	**905.7**

E. Nonphysical Investment for Capacity Development

32. In November 2015, ADB approved capacity development technical assistance of $15.4 million for the Enabling Economic Corridors through Sustainable Transport Sector Development as part of the Government of the United Kingdom's assistance through the Pakistan Economic Corridors Program. The TA will deliver 4 outputs for capacity development for sustainable transport sector development in Pakistan: (i) national transport policy and master plan; (ii) multimodal transport facilitated within Pakistan and with its neighboring countries through (a) the effective implementation of the Transports Internationaux Routiers Convention and other international transport agreements to which Pakistan is a signatory; (b) preparing Pakistan for accession to other key agreements such as the Convention on the Contract for the International Carriage of Goods by Road; and (c) capacity building of relevant government staff and private sector stakeholders on international transport agreements; (iii) national road safety program implemented; and (iv) national road asset management system made functional by working on sustainable road investment and maintenance funding, upgrading NHA's RAMS, overloading, and cleaning up NHA's financial statements. Capacity development through the TA will cover the area of policy framework refinements, planning assistance, and institutional change management.

33. In addition, each tranche under the MFF will have components for (i) assistance with the implementation of a project approved under each tranche; and (ii) due diligence advisory services to help NHA prepare projects for subsequent tranches.

F. Financing Plan

34. Financing plans for the Investment Program and the CAREC Corridors Development Investment Program are as follows:

	Financier	Amount ($ million)	Share (%)
Investment Program	Asian Development Bank	2,030	26
	Other Development Partners	2,851	37
	Government	2,802	37
	Total	**7,683**	**100**
CAREC Corridors Development Investment Program	Asian Development Bank	781[1]	86
	Government	125	14
	Total	**906**	**100**

[1] The MFF includes a capacity development component of $19 million and the total envelope of the MFF is $800 million.

SCHEDULE 2

DESIGN AND MONITORING FRAMEWORK FOR THE FACILITY

Impact the Investment Program is Aligned with
Regional connectivity and trade in CAREC corridors enhanced (CAREC Transport and Trade Facilitation Strategy 2020)[1]

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Efficiency for road traffic along the CAREC Corridors improved	By 2027: a. Average daily vehicle-km of project roads increased to 6.62 million (2016 baseline: 4.26 million) b. Average travel time on project roads reduced to 7.0 hours (2016 baseline: 9.8 hours)	a–b. NHA compiled statistics on the asset management system and performance monitoring report a–b. Facility and project completion reports	Weak financing arrangements on development and management of the road network jeopardizes network sustainability. Political instability and deteriorating security discourages development assistance.
Outputs 1. Corridor along N55 constructed or rehabilitated 2. NHA capacity strengthened	1a. 747 km of CAREC corridor along N55 improved by 2027 with international roughness index no higher than 2.0 m/km (2016 baseline: not applicable for new carriageways and 3.25 m/km for existing carriageways to be rehabilitated) 2a. Due diligence works for subsequent tranches completed as planned and subsequent tranche projects prepared in compliance with ADB Safeguard Policy Statement (2009) and categorized as procurement- and design-ready.	1a–2a. NHA compiled statistics on the asset management system 1a–2a. Facility and project completion reports	Unfavorable political interference affects the implementation capacity of NHA Shifting government priorities causes insufficient budget allocation.

Key Activities with Milestones

1. **Corridor along N55 constructed or rehabilitated**

1.1 Sign financing framework agreement by August 2017.
1.2 Submit and approve periodic financing request for project 1 in Q4 2017.
1.3 Complete due diligence works for project 2 by March 2019.
1.4 Submit and periodic financing request for project 2 in May 2019 and approve it in September 2019.
1.5 Completed due diligence works for project 3 by March 2021.
1.6 Submit periodic financing request for project 3 in May 2021 and approve it in September 2021.
1.7 Implement and complete all civil works by 2027.

2. **NHA capacity strengthened**

2.1 Mobilize due diligence advisory services for project 2 by September 2018 and project 3 by September 2020.
2.2 Prepare due diligence reports including feasibility assessment, detailed design, and safeguard-related review and assessment for project 2 by March 2019 and project 3 by March 2021.

[1] ADB. 2014. *CAREC Transport and Trade Facilitation Strategy 2020.* Manila.

Key Activities with Milestones
2.3 Prepare terms of reference for assistance for project implementation as needed and recruit consultants following the project implementation schedule.
Inputs
ADB: $800 million (regular ordinary capital resources loan) Government: $125 million
Assumptions for Partner Financing
Not Applicable

ADB = Asian Development Bank; CAREC = Central Asia Regional Economic Cooperation; NHA = National Highway Authority.
Source: Asian Development Bank.

SCHEDULE 3

IMPLEMENTATION FRAMEWORK

1. The Executing Agency

1. NHA will be the executing agency for implementation of the entire MFF. A steering committee chaired by the NHA Chairman will be responsible for monitoring the use of loan funds and for overall implementation performance. The committee will meet at least quarterly. A general manager for ADB projects in headquarters has been appointed and is operational. NHA will provide, as necessary, counterpart staff, land facilities, and counterpart funding for the projects in accordance with the financing plan in a timely manner through approved annual budget allocations.

2. Management

2. For subsequent tranches, NHA will appraise all projects and will be responsible for preparation and implementation. Appraisal, processing, and implementation will include the development and completion of technical reports (feasibility studies, preliminary design reports, environmental assessment reports, resettlement plans, and detailed design reports) to ensure compliance with government and ADB requirements. PFRs will be submitted to ADB when they have been approved by NHA and have received the required government clearances (PC-1s). Detailed timetables for implementation will be set out in the Facility Administration Memorandum.

3. NHA will prepare progress reports and will submit them to ADB every quarter. Environmental checklists will be completed as an early warning system for all tranche projects. NHA will submit other required performance and monitoring reports twice a year. Overall progress and compliance with conditions of the FFA and individual loan and project agreements will be monitored regularly with periodic reports to ADB, consistent with existing project implementation requirements. Reports will include evaluations of issues or problems faced by NHA and will recommend remedial actions. Overall progress will be considered as new financing requests are submitted.

3. Procurement, Consulting Services, and Disbursement

4. The NHA shall ensure that all procurement of goods and services financed by the MFF will be carried out in accordance with ADB's Procurement Guidelines (2015, as amended from time to time), all consulting services to be financed under the MFF will be procured in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time) and individual Loan proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (2017, as amended from time to time). Direct payment procedures will generally be used for large civil works contracts and consulting services. NHA will establish an advance account at the National Bank of Pakistan. Separate advance accounts should be established and maintained for each funding source. The total outstanding balance to the respective advance account will not at any time exceed the estimated ADB financed expenditures to be paid from the respective advance account for the forthcoming six months. The request for initial and additional advances to the respective advance account should be based on Estimate of Expenditure Sheet setting out the estimated expenditures for the forthcoming six months of project implementation. Supporting documents should be submitted to ADB or by the borrower in accordance with ADB's Loan Disbursement Handbook (2017, as amended from time to time) when liquidating or replenishing the advance account. Statement of expenditure (SOE) procedure may be used for

reimbursement of eligible expenditures or liquidation of advances to the advance account(s). Supporting documents and records for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.

4. Investment Program Performance and Monitoring

5. NHA will monitor performance of the Investment Program through its performance monitoring and analysis system. The key indicators and assumptions outlined at the impact and outcome levels in the Design and Monitoring Framework will form the core of the data required for rapid assessment. NHA will undertake periodic project performance review under each individual Loan, as also for the CAREC Corridors Development Investment Program, in accordance with the project performance monitoring system to evaluate the scope, implementation arrangements, progress and achievements of objectives of the related project and overall Program. NHA will prepare and submit to ADB quarterly progress reports for the individual project under the Facility. The reports will include a description of physical progress, problems, and difficulties encountered and a summary of financial accounts that will consist of loan expenditures during the period, year to date, and total to date, and include a report on progress of the implementation of mitigation measures as specified in the contracts and EMP.

5. Investment Program Review

6. ADB, the Borrower and NHA will meet regularly as required to discuss the progress of the individual tranche and any changes to implementation arrangements or remedial measures required to be undertaken towards achieving the objectives of the projects and the Investment Program. A mid-term review of each project will be undertaken by ADB, the Borrower and NHA. The mid-term review will include review of issues and any problems or weaknesses in implementation arrangements, and agree on any changes needed to achieve the objectives of the Investment Program. A similar mid-term review of the Investment Program by ADB, the Borrower and NHA will be undertaken in the fourth year from the date of the approval of the MFF by ADB.

5. Accounting and Audit

7. The Borrower and NHA will ensure that proper accounts and records are maintained and audited in a timely manner to adequately identify the use of loan proceeds in such manner and detail as may be specified under each related legal agreement.

SCHEDULE 4

SELECTION CRITERIA AND APPROVAL PROCESS FOR PROJECTS

A. Requirements

1. The following are the requirements for a road section to be selected as a project for financing under the Facility.

(i) The objective of the CAREC Corridors Development Investment Program is to develop and improve road connectivity and efficiency along the CAREC Corridors as part of implementing the Investment Program. The Government has requested ADB to assist in the of 961 km of CAREC Corridor along N55.

(ii) The Project will be technically sound, and a feasibility study and preliminary design will have been prepared. NHA will ensure that detailed design reports of the respective packages are prepared when a PFR is submitted. A road safety audit will be conducted and incorporated into detailed design.

(iii) The project will be economically feasible and financially sustainable, and its estimated economic internal rate of return will be equal to or higher than 9% based on an economic analysis to be conducted in accordance with ADB's Guidelines for the Economic Analysis of Projects (1997).

(iv) Safeguard due diligence should be conducted in accordance with EARF and LARF and ADB's Safeguard Policy Standard (2009).

(v) All necessary federal and provincial government approvals will have been obtained; and

(vi) Sufficient Government counterpart funding will be allocated to implement the Projects.

B. Procedures

2. Each Project will be prepared and processed in accordance with the following procedures:

(i) A feasibility study for the project will have been conducted by NHA to establish engineering, economic, financial, environmental, and social viability of projects.

(ii) NHA will develop the detailed design of project roads under proposed projects. Upon completion of the detailed design, NHA will prepare and submit to ADB a summary appraisal report for the project, together with the required attachments, including a land acquisition and resettlement plan, environmental assessment, summary poverty reduction and social strategies, and indigenous people development plan or special action if required. NHA will get PC1 approved by CWDP before it submits the appraisal report to ADB.

(iii) NHA and ADB will publicly disclose safeguard due diligence reports.

(iv) ADB will review the summary appraisal reports together with the required attachments. If it finds that the project does not satisfy eligibility criteria and procedures, or does not comply with ADB's policies, ADB may advise NHA to modify the project.

3. Based on ADB's approval, and subject to any modification and remedial measures required by ADB, NHA will implement the projects. NHA will ensure that ADB has access to all documents related to the Project proposals and approval process. These documents should be kept for 5 years after approval.

SCHEDULE 5

POVERY AND SOCIAL DIMENSIONS AND SAFEGUARD REQUIREMENTS

1. Pakistan will ensure that all the requirements prescribed in this Schedule, and the following social and safeguard frameworks and plans that have been prepared with respect to the Facility and the first tranche and of which ADB has been provided full copies, and which are deemed incorporated herein by reference, are complied with during the processing and implementation of the projects under the Facility.

(i) environmental assessment and review framework, dated 24 July 2017,
(ii) land acquisition and resettlement framework dated 24 July 2017,
(iii) initial environmental examination dated 24 July 2017 and resettlement plan dated 24 July 2017 for the first tranche, and/or
(iv) environmental management plan and site specific environmental management plan.

2. The frameworks cover the Facility-specific information and requirements in accordance with ADB's safeguard policies: (i) the general anticipated impacts of the components or projects likely to be financed under the MFF on the environment and involuntary resettlement; (ii) the safeguard criteria that are to be used in selecting projects; (iii) the requirements and procedure that will be followed for screening and categorization, impact assessments, development of management plans, public consultation and information disclosure (including the 120-day disclosure rule, if required), and monitoring and reporting; and (iv) the institutional arrangements (including budget and capacity requirements) and the client's and ADB's responsibilities and authorities for the preparation, review and clearance of safeguard documents.

3. Prior to the preparation of each PFR, the applicability and relevance of each safeguard framework for environmental assessment and involuntary resettlement will be reviewed by NHA and updated to ensure relevance and consistency with applicable country legal frameworks and ADB's safeguard policies, as amended from time to time.

4. In all cases, for each new PFR preparation, the client will review ongoing projects to check on the status of compliance with the social and safeguard plans and frameworks, and submit the review reports to ADB, together with other required safeguard documents relevant to the projects included in the tranche being processes. In any case if major noncompliance is discovered in the course of the review of ongoing projects, a corrective action plan will be prepared and submitted to ADB.

SCHEDULE 6

In addition to such undertakings as ADB will reasonably require in legal agreements for individual tranches under the Facility, Pakistan undertakes as follows:

A. Sector Specific Undertakings

1. Pakistan will prepare a national transport policy together with NHA's business plan within one month of the effectiveness date of the first tranche and make it endorsed by the federal government to be effective and adopted by relevant agencies by 31 December 2018.

2. Pakistan will secure funding for reconstruction of 1,113 km of maintenance backlogged national highways with residual life less than 2 years by 31 December 2018.

3. Pakistan will prepare a National Road Safety Plan to be expanded from the draft National Road Safety Framework and Action Plan for National Highways and Motorways and cover the entire road network within one month of the effectiveness date of the first tranche and make it endorsed by the federal government to be made effective and adopted for implementation by 31 December 2018.

4. Pakistan will establish a National Road Safety Body which will coordinate and monitor the implementation of the National Road Safety Plan by 30 June 2019.

5. Pakistan will rationalize NHA's financial statements by equitizing NHA's accumulated debt from the government and revaluing NHA's road assets at current prices by 31 December 2018. Pakistan will devise a reasonable method to treat future government support to NHA for road investment either as government equity investment or as other proper financing modalities, by which NHA can safely absorb government support to its financial statements.

6. Pakistan will ensure that NHA installs appropriate road safety signs and facilities during the project implementation and after completion, such as warning signs, pavement markings, road signs and signals, communications facilities, hazard barriers, and traffic monitoring facilities, all in compliance with appropriate international conventions that Pakistan is a signatory to and best industry practices. At least six months prior to the opening for operation of the project roads, (i) NHA will have developed and implemented a plan, acceptable to ADB, for ensuring safe operation of road infrastructure facilities; and (ii) Pakistan acting through relevant government authorities will ensure that traffic police patrols the road and enforces the national laws and regulations. NHA will ensure monitoring of the accident rate and traffic volume after commencement of the operation of project roads financed under the Facility and institute appropriate safety enforcement measures.

B. Conditions for Submission of PFR for Subsequent Tranches

7. Pakistan will not submit a PFR for tranche 2 project until:

   (i) a national transport policy together with NHA's business plan has been prepared;

   (ii) funding for reconstruction of 1,113 km of maintenance backlogged national highways with residual life less than 2 years has been secured;

(iii) a National Road Safety Plan which covers the entire road network in Pakistan has been prepared and endorsed by the federal government to be made effective and adopted for implementation; and

(iv) NHA's financial statements have been rationalized by equitizing NHA's accumulated debt from the government and revaluing NHA's road assets at current prices.

8. Pakistan will not submit a PFR for tranche 3 project until:

(i) the national transport policy together with NHA's business plan has been endorsed by the federal government to be effective and adopted by relevant agencies;

(ii) a National Road Safety Body has been established which will coordinate and monitor the implementation of the National Road Safety Plan; and

(iii) a reasonable method has been devised to treat future government support to NHA for road investment either as government equity investment or as other proper financing modality, by which NHA can safely absorb government support to its financial statements.