



# Project Readiness Financing Report

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**PUBLIC**

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## Islamic Republic of Pakistan: Naulong Integrated Water Resources Development Project

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**Asian Development Bank**

## **CURRENCY EQUIVALENTS**

(as of 23 September 2022)

Currency unit	–	Pakistan rupee/s (PRe/PRs)
PRe1.00	=	\$0.0042
\$1.00	=	PRs239.500

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
m <sup>3</sup>	–	cubic meter
NGO	–	nongovernment organization
PAM	–	project administration manual
PRF	–	project readiness financing
SSS	–	single-source selection
TA	–	technical assistance
WAPDA	–	Water and Power Development Authority

## **NOTE**

In this report, "\$" refers to United States dollars.

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## PROJECT READINESS FINANCING AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 51131-003</b>	
<b>Project Name</b>	Naulong Integrated Water Resources Development Project	<b>Department/Division</b>	CWRD/CWER
<b>Country</b>	Pakistan	<b>Executing Agency</b>	Water and Power Development Authority
<b>Modality</b>	Project Readiness Financing (Loan)		
<b>Borrower</b>	Islamic Republic of Pakistan		
<b>Country Economic Indicators</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=51131-003-CEI">https://www.adb.org/Documents/LinkedDocs/?id=51131-003-CEI</a>		
<b>Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=51131-003-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=51131-003-PortAtaGlance</a>		
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Agriculture, natural resources and rural development</b>	Agricultural production		0.835
	Irrigation		0.833
	Land-based natural resources management		0.833
<b>Energy</b>	Large hydropower generation		0.833
<b>Water and other urban infrastructure and services</b>	Urban policy, institutional and capacity development		0.833
	Urban water supply		0.833
		<b>Total</b>	<b>5.000</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
✓ OP1: Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ OP2: Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ OP5: Promoting rural development and food security		<b>ADB Financing</b>	
✓ OP6: Strengthening governance and institutional capacity		Adaptation (\$ million)	0.750
		Mitigation (\$ million)	0.750
		<b>Cofinancing</b>	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
<b>Sustainable Development Goals</b>		<b>Poverty Targeting</b>	
SDG 1.5		Geographic Targeting	✓
SDG 2.3, 2.4			
SDG 5.5			
SDG 6.1, 6.4			
SDG 7.1			
SDG 10.4			
SDG 12.2			
SDG 13.a			
<b>4. Risk Categorization:</b>	Complex		
<b>5. Safeguard Categorization</b>	Not Applicable.		
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>5.000</b>	
Sovereign Project Readiness Financing (Concessional Loan): Ordinary capital resources		5.000	
<b>Cofinancing</b>		<b>0.000</b>	
None		0.000	
<b>Counterpart</b>		<b>2.390</b>	
Government		2.390	
<b>Total</b>		<b>7.390</b>	
<b>Currency of ADB Financing: US Dollar</b>			

## I. PROJECT READINESS FINANCING

### A. Rationale

1. **Poverty.** Balochistan province covers 44% of Pakistan's geographical area of 796,096 square kilometers and has about 6% of Pakistan's population of 207.7 million.<sup>1</sup> Yet it has the lowest per capita income of all provinces of Pakistan, at \$1,106, well below the national average of \$1,798. The agriculture sector accounts for one-third of the provincial gross domestic product and provides livelihoods for about 68% of the population.<sup>2</sup> Despite the dependence on agriculture, malnutrition remains prevalent.<sup>3</sup>

2. **Water resources and climate change.** Balochistan has scarce water resources, with only a limited number of perennial rivers compared with other provinces of Pakistan. The annual renewable water resource per hectare averages 560 cubic meters (m<sup>3</sup>) per year. This is significantly lower than the 2,500 m<sup>3</sup> per hectare per year average of Pakistan's other three provinces.<sup>4</sup> Balochistan's water resources comprise perennial and non-perennial rivers (57%), water diverted from the Indus River (39%), and groundwater (4%). Only 40% of river flows are used—mainly for irrigation. The remaining 60% of flows enter the sea.<sup>5</sup> This demonstrates the untapped potential of perennial and non-perennial rivers for hydropower generation, irrigation, potable water, and other livelihood activities if they can be stored or diverted. While agriculture accounts for 93% of water use in Balochistan,<sup>6</sup> water management remains underdeveloped, resulting in low crop and water productivity.

3. Climate change projections indicate further increases in average temperatures, heat waves, and intensity of extreme precipitation events.<sup>7</sup> Without appropriate investment, climate change poses a high risk to water availability, agricultural productivity, and livelihoods. The impacts were evident in the severe flash flooding in August 2022 where Balochistan province received between 5–8 times the usual monsoon precipitation. It is one of the most severely impacted provinces, and particularly impacted were the areas associated with the Naulong dam. In Balochistan province alone, 83% of livelihoods are impacted, with 36% of livestock lost and 40% of irrigation infrastructure damaged.

4. **Constraints in access to energy.** In 2021, only 36% of Balochistan province had access to electricity,<sup>8</sup> and electricity consumption was only 4% of the national consumption. A substantial share of this (about 75%) is used to pump water from tube wells for irrigation. Recognizing the importance of water-energy nexus in water security and climate adaptation, an inadequate and growing energy supply–demand gap creates the opportunity to explore

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<sup>1</sup> Government of Pakistan, Finance Division. 2022. [Pakistan Economic Survey 2021–2022](#). Islamabad.

<sup>2</sup> International Food Policy Research Institute. 2021. [Balochistan Agriculture Policy 2021](#).

<sup>3</sup> Half of all children under 5 years of age are stunted, and 16% of the population was malnourished in 2017.

<sup>4</sup> The quantity of water that can be used for human purposes without significant harm to ecosystems or other users is about 560 m<sup>3</sup>/year per hectare in Balochistan and 2,500 m<sup>3</sup>/year per hectare on average in Pakistan's other three provinces. Asian Development Bank (ADB). 2018. [Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grants and Technical Assistance Grant to the Islamic Republic of Pakistan for the Balochistan Water Resources Development Sector Project](#). Manila. Sector Assessment (accessible from the list of linked documents in Appendix 2).

<sup>5</sup> R. Benmessaoud. 2013. [Islamic Republic of Pakistan—Balochistan Needs Assessment: Development Issues and Prospects \(Vol. 2\)—Water and Agriculture](#). Washington, DC: World Bank.

<sup>6</sup> ADB. 2018. <https://www.adb.org/sites/default/files/linked-documents/48098-002-ssa.pdf>

<sup>7</sup> Severe droughts occurred most recently in 2018. Major floods occurred in 2010 and 2022. United Nations Office for the Coordination of Humanitarian Affairs. 2022. [Pakistan 2022 Flash Floods. Situation Report](#). No. 2: As of 12 August 2022. New York.

<sup>8</sup> ANI. 2021. [No Electricity in 64 Per Cent Area of Balochistan, States Report. 24 September 2021](#).

sustainable renewable energy sources such as hydropower and solar.

5. **Significant gender disparity.** Although women are intensively engaged in agriculture, their role is mainly limited to unskilled labor, weeding, seed cleaning, and livestock-related activities. Women are particularly disadvantaged by low literacy, as only 36.8% of women are literate compared with the national literacy rate of 51.9%.<sup>9</sup> They are also exposed to health and nutrition challenges and are vulnerable to climate and disaster risks. Low social mobility due to cultural norms further impedes women's access to agriculture extension services and inputs such as agriculture credit.

6. **Government's request and strategic alignment.** On 2 October 2020, the Government of Pakistan requested project readiness financing (PRF) from the Asian Development Bank (ADB) to prepare the Naulong Integrated Water Resources Development Project. The ensuing project, in Jhal Magsi District, Balochistan, will increase the reliability of water resources for irrigation, domestic water supply, hydropower generation, and flood management, under increased climate change impacts. The project supports the Government of Pakistan's Vision 2025<sup>10</sup> and ADB's country partnership strategy for Pakistan, 2021–2025.<sup>11</sup> These strategies prioritize water, energy, and food security. The project aligns with ADB's Strategy 2030 in (i) addressing remaining poverty and reducing inequalities; (ii) accelerating progress in gender equality; (iii) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; (iv) promoting rural development and food security; and (v) strengthening governance and institutional capacity.<sup>12</sup> It also aligns with Pakistan's intended nationally determined contribution for climate change.<sup>13</sup>

7. **ADB's value addition.** This will include (i) promoting holistic development of the project area by integrating infrastructure interventions, agricultural development, and livelihood diversification; (ii) facilitating command area development with participatory processes, including women and other vulnerable groups; and (iii) building resilience through robust upstream climate risk assessment for climate-adaptive design, institutional strengthening, and promoting climate-smart agriculture. ADB support through the PRF will ensure high-quality design, stakeholder engagement, and safeguard and procurement readiness of the ensuing project. High readiness will facilitate timely and cost-effective achievement of the ensuing project's outcomes. ADB support for the preparation of a quality project will be enhanced through collaboration between the proposed PRF and transaction technical assistance (TA) that is expected to be approved in the first quarter of 2023. The TA will oversee and provide advisory support to the PRF. The TA consultants will provide international best practices and ensure an integrated design of the ensuing project (paras. 8 and 9).

## B. Outputs and Activities

8. **Output 1: Detailed design and procurement and safeguard documents reviewed and updated.** The PRF will review and update the existing feasibility study and detailed engineering design for a dam, a spillway, two powerhouses, tunnels, intakes, irrigation canals and structures, and other related infrastructure. The existing design for the command area and agriculture development will also be updated in consultation with communities in the project area. The updated design will introduce climate-smart agriculture and efficient renewable energy sources. The PRF will also enhance the existing safeguard and due diligence documents, such

<sup>9</sup> Pakistan. 2021. [Economic Survey 2021-2022, supra 1 pages 187-188](#)

<sup>10</sup> Pakistan. 2025. <https://www.pc.gov.pk/uploads/vision2025/Pakistan-Vision-2025.pdf>

<sup>11</sup> ADB. 2020. <https://www.adb.org/documents/pakistan-country-partnership-strategy-2021-2025>

<sup>12</sup> ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific.](#)

<sup>13</sup> Government of Pakistan, Ministry of Climate Change. 2016. [Pakistan's Intended Nationally Determined Contribution.](#)

as a land acquisition and resettlement plan, social and environmental impact assessments, and financial and economic analyses. It will conduct a poverty, social, and gender assessment; and produce a dedicated social and gender assessment report. The PRF will also conduct a risk assessment and strategic procurement planning for the ensuing project. The TA will be implemented in parallel with the PRF in 2023 and 2024. It will review and advise on the technical outputs of the PRF to ensure a high-quality project design. The PRF's deliverables will enable the development of a comprehensive project design to be prepared under the TA.

9. **Output 2: Capacity of executing and implementing agencies for project implementation readiness improved.** This output will support capacity development of the executing agency, the Water and Power Development Authority (WAPDA), for project implementation readiness. This will include procurement transactions, financial management, and social and environmental safeguard readiness. It will strengthen the collaboration between WAPDA and the Government of Balochistan for a comprehensive project design, security arrangements, stakeholder engagement, and operation and maintenance planning. The output will include (i) advance procurement actions before ADB approval of the ensuing project; and (ii) start-up activities such as the implementation of social and environmental safeguard plans, and the establishment of coordination processes. An experienced panel of dam safety experts will create opportunities for WAPDA and the Government of Balochistan to be exposed to high-level technical knowledge and international best practices. Institutional capacity strengthening support will be expanded under the proposed TA. This will include training on ADB-financed project preparation and implementation, and dam and water resources management technologies. The PRF's capacity enhancement experience will be reflected in the design of a capacity implementation component under the ensuing project. The TA will prepare a capacity enhancement program for the executing and implementing agencies for the investment project. It will strengthen their capacity in project management and implementation, water resources management, climate-resilient agriculture practices, and other capacities. This will support successful implementation of the project and achieve the project's outcomes.

### C. Ensuing Project

10. The ensuing project will introduce climate-resilient and reliable water resources management for the project area. It will support investments in resilient water resources infrastructure and water resources and watershed management. It will develop the skills of beneficiaries and relevant government agencies through inclusive and gender-sensitive social mobilization processes. More reliable water resources will enhance agricultural productivity and livelihood opportunities in the project area. To deliver these benefits, the project will construct an earth-filled multipurpose dam on the Mula River with the associated infrastructure, including an irrigation system and power houses (para. 8). The reservoir will provide water for irrigation, fisheries, domestic water supply, and hydropower generation. It will also regulate flood flows – to avoid impacts of water related disasters. The ensuing project will enhance the livelihoods of the local population through irrigated agriculture and fisheries development, and domestic water supply. Improved flood management will enhance the climate resilience of communities and the project area. These components will contribute to climate change adaptation. The project will also contribute to climate change mitigation through hydropower generation. More than 58,000 people will benefit from the project, which is estimated to cost about \$350 million, with indicative ADB financing of \$100 million. It is programmed for ADB approval in 2024. ADB will engage with development partners for potential cofinancing support.



## D. Cost Estimates and Financing Arrangements

11. The PRF is estimated to cost \$7.39 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).<sup>14</sup>

**Table 1: Summary Cost Estimates**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Output 1: Detailed design and procurement and safeguard documents reviewed and updated	3.45
2. Output 2: Capacity of executing and implementing agencies for project implementation readiness improved	1.93
<b>Subtotal (A)</b>	<b>5.37</b>
<b>B. Contingencies</b>	1.89
<b>C. Interest During Implementation<sup>c</sup></b>	0.13
<b>Total (A+B+C)</b>	<b>7.39</b>

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> Includes taxes and duties of \$0.53 million. Such an amount does not represent an excessive share of the project cost. The government will finance taxes and duties of \$0.53 million through exemption.

<sup>b</sup> In mid-2022 prices as of 27 July 2022.

<sup>c</sup> Interest during implementation for the concessional ordinary capital resources lending has been computed at 2% per annum.

Sources: Asian Development Bank and Water and Power Development Authority estimates.

12. The government has requested a concessional loan of \$5.0 million from ADB's ordinary capital resources to finance project preparation and design activities. The loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2.0% per year during the grace period and thereafter (the interest and other charges during implementation to be capitalized in the loan); and such other terms and conditions set forth in the draft loan agreement.

13. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to consulting services, surveys, modeling, partial contingencies, and financial charges during implementation. The government will finance security arrangements and other management costs, counterpart staff, taxes and duties, land acquisition costs, and contingencies. The government has assured ADB on its financing of counterpart contribution. In cases of challenges, the government will inform ADB for further reassessment of the situation.

**Table 2: Summary Financing Plan**

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (concessional loan)	5.00	67.6
Government	2.39	32.4
<b>Total</b>	<b>7.39</b>	<b>100.0</b>

Sources: Asian Development Bank and Water and Power Development Authority estimates.

## E. Implementation Arrangements

14. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 14). A project steering committee, working committee, and coordination committee will be established to facilitate the coordination in planning and implementing the PRF. Their composition and responsibilities are detailed in the PAM (footnote 14). Procurement will follow the ADB Procurement Policy (2017, as amended from time to time), the Procurement

<sup>14</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 1).

Regulations for ADB Borrowers (2017, as amended from time to time), and the associated staff instructions. A consulting team will be engaged for updating the existing detailed engineering design, and for procurement and safeguard document preparation support. The consulting firm for the PRF may be engaged for the ensuing project as the construction supervision consultant team through the single-source selection (SSS) method at the request of the government, executing agency, or implementing agency. This will be subject to the satisfactory performance of the firm. It will facilitate timely and quality construction supervision, with detailed knowledge of the engineering design.

**Table 3: Implementation Arrangements for Project Readiness Financing**

Aspects	Arrangements		
PRF implementation period	November 2022–June 2025		
Estimated PRF completion date	30 December 2025		
Management			
(i) Oversight body	Project steering committee, working committee, and coordination committee		
(ii) Executing agency	WAPDA		
(iii) Key implementing agencies	WAPDA (dam and powerhouses), Irrigation Department (irrigation canals), and Agriculture and Cooperative Department (agriculture development) of GOB		
Consulting services	QCBS 90:10 (review and update of detailed design)	318 person-months	\$3.14 million
	ICS (dam safety panel of experts)	9 person-months	\$0.24 million
	SSS (stakeholder engagement and social mobilization)	202 person-months	\$0.31 million
Advance contracting and retroactive financing	Advance contracting will be used for all consulting services packages. Retroactive financing will be used for the stakeholder engagement and social mobilization consulting service package.		
Disbursement	Disbursements under PRF will follow ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, GOB = Government of Balochistan, ICS = Individual consultant selection, PRF = project readiness financing, QCBS = quality- and cost-based selection, SSS = single-source selection, WAPDA = Water and Power Development Authority.

Source: Asian Development Bank.

15. Advance contracting will be used for all proposed packages, using open competition to attract national and international bidders, except stakeholder engagement where the SSS method is proposed to recruit a local nongovernment organization (NGO). The SSS method will be applied because (i) social mobilization requires a group of experts with extensive experience reaching vulnerable people in rural areas; (ii) the identified NGO has the necessary experience; and (iii) it is the only province-wide NGO.

## II. DUE DILIGENCE

16. **Technical.** WAPDA prepared a feasibility study for the Naulong dam and irrigation system in 1996 and a detailed engineering design in 2010. The detailed design of an agriculture development component was also completed by WAPDA consultants in 2021–2022. The feasibility study validated the technical and environmental viability of the ensuing project. The PRF will update the feasibility study, detailed engineering design, and other studies; and reconfirm the proposed project's technical and economic viability. The PRF will also enhance the due diligence of the ensuing project. Proposed studies and assessments under the PRF include (i) updating hydrological data and sediment loads; (ii) validating and refining the dam and spillway design; (iii) climate change assessment and mitigation and adaptation measures; (iv) updating the environmental impact assessment and land acquisition and resettlement plan; and (v) preparing studies on gender, poverty and social aspects, agriculture, command area development, and economic and financial analyses.

17. **Governance.** A financial management assessment of WAPDA was conducted by ADB in November 2021 and updated in April–May 2022. The PRF expenditures are mostly for consulting services costs and will be made through direct payments, representing 90% of estimated disbursement transactions. The remaining 10% of disbursements will be channeled to WAPDA through an advance fund. The PRF fund flow will only include WAPDA. Implementing agencies will not be involved in funds flow during the PRF. Current developments, including the political and economic situation and the need to strengthen a dedicated project management unit for this PRF, have been considered in preparing the PRF. The overall pre-mitigated financial management risk for this PRF has been upgraded to *substantial*. ADB will ensure adequate training to address weaknesses in public financial management and existing accounting and reporting standards. An updated time-bound action plan is in the PAM (footnote 14). A strategic procurement planning exercise was undertaken by ADB to assess the capacity of WAPDA in managing the procurement under the proposed PRF. The assessment considered market conditions and other factors that may have implications on procurement and contract management. WAPDA lacks familiarity with ADB’s procurement framework. The procurement risk is considered *substantial*. Value for money will be achieved by using open competition and other appropriate selection methods, i.e., SSS method for engaging an NGO, allocating sufficient qualified staff to the project management unit, support from the central contracts cell of WAPDA, and support from ADB staff and TA consultants to the executing agency. This will enhance the procurement readiness and contract management.<sup>15</sup>

18. **Safeguards.** Since the proposed activities consist of consulting services only, activities have not been categorized in accordance with ADB’s Safeguard Policy Statement (2009). The ensuing project is expected to be categorized A for environment and involuntary resettlement. This is because of potential adverse environmental impacts, land acquisition, and resettlement caused by the construction of a dam, its associated structures, and irrigation canals. The project site is in a tribal area. The PRF will undertake an indigenous peoples assessment to define the indigenous peoples categorization of the ensuing project. The PRF will update or prepare stakeholder analysis and communication strategies; a social and poverty analysis; and a social action plan, gender assessment, environmental surveys, and assessments (environmental impact assessment or initial environmental examination). It will also conduct a census of land acquisition and resettlement impacts and prepare a resettlement framework and plan(s). The environmental study will include an assessment of downstream environmental flow requirements. A livelihood impact and restoration study is planned, as described in the environmental and social safeguard strategy.<sup>16</sup> The PRF will also conduct a land valuation and independent valuation survey, if required. An assessment of social and livelihood impacts downstream and in command areas, including recommended mitigation measures, will also be undertaken. The environmental and social safeguard strategy includes a summary of social safeguard actions taken by the government (footnote 16).

19. Although Balochistan is a security-sensitive province, the project area is confirmed to be accessible. Safe access to the project area is critical for PRF implementation. An adequate security plan for project staff and consultants has been agreed by ADB with the government.

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<sup>15</sup> Procurement delays under the approved PRF for Kurram Tangi Integrated Water Resources Development Project have been reviewed with WAPDA to ensure availability of experienced staff required to expedite all procurement related actions.

<sup>16</sup> Environmental and Social Safeguard Strategy (accessible from the list of linked documents in Appendix 1).

### III. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved the loan of \$5,000,000 to the Islamic Republic of Pakistan for the Naulong Integrated Water Resources Development Project, from the ordinary capital resources of the Asian Development Bank (ADB), in concessional terms, with an interest charge at the rate of 2.0% per year during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement; and hereby reports this action to the Board.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/LinkedDocs/?id=51131-003-PRF>

1. Loan Agreement
2. Project Administration Manual

**Supplementary Documents**

3. Environmental and Social Safeguard Strategy
4. Financial Management Assessment
5. Strategic Procurement Planning Report
6. Summary of the Ensuing Project