Agreement Amending
Selected Development Credit Agreements

(NWFP On-Farm Water Management Project and Second NWFP Community
Infrastructure Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ISLAMIC REPUBLIC OF PAKISTAN

Dated December 6, 2005
AGREEMENT AMENDING SELECTED DEVELOPMENT CREDIT AGREEMENTS

AGREEMENT AMENDING SELECTED DEVELOPMENT CREDIT AGREEMENTS (the Amending Agreement) dated December 6, 2005, between the ISLAMIC REPUBLIC OF PAKISTAN (the “Borrower”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the “Association”).

(A) WHEREAS the Borrower and the Association have entered into two Development Credit Agreements, the first dated August 28, 2001, relating to the North West Frontier Province On-farm Water Management Project (Cr. No. 3516-PAK) (the “NWFP On-Farm Project”), and the second dated August 11, 2004, relating to the Second NWFP Community Infrastructure Project (Cr. No. 3906-PAK) (the NWFP CIP II Project), (together, the “Selected Development Credit Agreements”);

(B) WHEREAS the Borrower has requested the Association to provide financial assistance to support the recovery, reconstruction and rehabilitation of communities affected by an earthquake which occurred in the Borrower’s territory on October 8, 2005, as well as by floods which occurred as a consequence of heavy rainfall and snowfall in February and March 2005, followed by heavy floods due to large-scale melting of accumulated snow in June and July 2005 (the Emergency), as described in Part Z of Schedule 2 to the Selected Development Credit Agreements, as amended;

(C) WHEREAS the Association has agreed to provide financial assistance to support the implementation of Part Z of the Project by: (i) increasing the amount made available under the NWFP On-Farm Project by an amount in various currencies equivalent to six million nine hundred thousand Special Drawing Rights (SDR 6,900,000) (the Additional Credit); (ii) by reallocating from existing financing Categories in the NWFP On-Farm Project, an amount in various currencies equivalent to five million two hundred thousand Special Drawing Rights (SDR5,200,000); and (iii) by reallocating from existing financing Categories in the NWFP CIP II Project, an amount in various currencies equivalent to eight hundred six hundred and sixty six thousand Special Drawing Rights (SDR8,666,000); and

(D) WHEREAS the Association has agreed, on the basis, among other things, of the foregoing, to assist the Borrower with these activities upon the terms and conditions set forth in this Amending Agreement;

NOW THEREFORE the parties hereto, hereby, agree as follows:
ARTICLE I

Preamble; General Conditions; Definitions and Financing

Section 1.01. In the Preamble to each Selected Development Credit Agreement, the following new clauses (C), (D), and (E) are added as the last enumerated recitals to read:

“(C) some districts in the North West Frontier Province of the Borrower were devastated by an earthquake which occurred in the Borrower’s territory on October 8, 2005, and were earlier affected by floods as a consequence of heavy rainfall and snowfall in February and March 2005, followed by heavy floods due to large-scale melting of accumulated snow in June and July 2005 (the Emergency);

(D) the Borrower has requested the Association to provide financial assistance in order to assist in financing emergency flood and earthquake damage recovery and mitigation activities under Part Z of the Project; and

(E) the Association has agreed to the Borrower’s request for such assistance;”

Section 1.02. A new paragraph is added at the end of Section 1.01 of each Selected Development Credit Agreement reading as follows:

“With respect to Part Z of the Project, Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. Treatment of Taxes

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit allocated to Part Z of the Project, may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods, works or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its Credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association.”

Section 1.03. Unless the context otherwise requires and except where otherwise defined in this Amending Agreement, all capitalized terms contained herein shall have
the meanings given to them in each Selected Development Credit Agreement, the
Preamble to this Amending Agreement, or in the General Conditions as the case requires.

Section 1.04. The following new definitions are added to Section 1.02 of each
Selected Development Credit Agreement unless any such definition is already included in
such section:

(za) “Affected Areas” means the districts of Chitral, Dir Upper, Dir Lower, Swat,
Shangla, Abbottabad, Mansehra, Battagram, Kohistan, Peshawar, Nowshera,
Charsadda, and D. I. Khan and any other districts that the Association and the
Borrower jointly designate;

(zb) “Affected Communities” means individuals, households or groups who, as a
result of the Emergency, have had, or shall have, their: (i) standard of living
adversely affected; (ii) access to productive assets adversely affected, temporarily
or permanently; and (iii) business, occupation, work or place of residence or
habitat adversely affected;

(zc) “Amending Agreement” means this Agreement Amending the Development
Credit Agreement between the Borrower and the Association dated
December 6, 2005;

(zd) “Cash Grants” means cash payments for livelihood support to affected persons
under Part Z.2(a) of the Project;

(ze) “District Coordination Committees” means committees set up at the district level
to be responsible for the implementation of Part Z of the Project within their
respective districts, and referred to in paragraph 2 of Schedule 2 to the Project
Agreement for Part Z of the Project;

(zf) “Financial Monitoring Report or FMR” means each report prepared in
accordance with Section 4.03 of this Agreement;

(zg) “NWFP On-Farm Part Z Special Account” means the account referred to in
Schedule 5 to this Agreement into which funds from the NWFP On-Farm Project
may be deposited;

(zh) “NWFP CIP II Part Z Special Account” means the account referred to in
Schedule 5 to this Agreement into which funds from the NWFP CIP II Project
may be deposited;

(zi) “Environmental and Social Assessment Guidelines for Part Z” means guidelines
satisfactory to the Association to be prepared by NWFP to deal with potential
environmental, indigenous people, resettlement and land acquisition issues
arising from the implementation of Part Z of the Project;
“Project Agreement for Part Z” means the agreement between the Association and NWFP of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement for Part Z;

“Procurement Plan for Part Z” means the Borrower’s procurement plan covering the initial 6 month period (or longer) of Project implementation as the same shall be updated from time to time in accordance with the provisions of Section 3.04(a) to this Agreement and Section 2.02 of the Project Agreement for Part Z, to cover succeeding 6 month periods (or longer) of Project implementation.

“Project Coordination and Monitoring Unit” or “PCMU” means the unit responsible for the overall coordination and implementation of Part Z activities, and referred to in paragraph 2 of Schedule 2 to the Project Agreement for Part Z of the Project;

“Provincial Steering Committee” means the Committee responsible for providing overall strategic and policy guidance for the implementation of the Project and referred to in paragraph 2 of Schedule 2 to the Project Agreement for Part Z;

“Report-based Disbursements for Part Z” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in paragraph 10 in Schedule 1 to the Development Credit Agreement (as amended);

“Special Accounts for Part Z” means, collectively, the NWFP On-Farm Part Z Special Account and the NWFP CIP II Part Z Special Account; and

“Sub-Project” means an activity under Part Z.1 of the Project that has been selected in accordance with the requirements set out in paragraph B of Schedule 2 to the Project Agreement for Part Z.

Section 1.05. Section 2.01 of the NWFP On-Farm Project Development Credit Agreement is amended to read as follows:

“Section 2.01. The Association agrees to make available to the Borrower, on the terms and subject to the conditions set out, or referred to, in the Development Credit Agreement, an amount in various currencies equivalent to twenty one million one hundred and fifty thousand Special Drawing Rights (SDR 21,150,000) (the “Credit”) which consists of: (a) an initial amount in various currencies equivalent to fourteen million two hundred and fifty thousand Special Drawing Rights (SDR 14,250,000) (the “Initial Credit”); and (b) an additional amount in various currencies equivalent to six million nine hundred thousand Special Drawing Rights (SDR 6,900,000) (the “Additional Credit”).”
Section 1.06. A proviso is added at the end of Section 2.04(b)(i) of the NWFP On-Farm Project Development Credit Agreement reading as follows:

“provided however that the commitment charge on the Additional Credit shall accrue from a date sixty (60) days after the date of the signing of the Amending Agreement.”

Section 1.07. A new Sub-Section (e) is added to Section 2.07 of the NWFP On-Farm Project Development Credit Agreement reading as follows:

“(e) Subject to paragraphs (b) and (c) above, the Borrower shall repay the principal amount of the Additional Credit in semiannual installments payable on each February 1 and August 1 commencing February 1, 2016, and ending August 1, 2040. Each installment to and including the installment payable on August 1, 2025, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one half percent (2-1/2%) of such principal amount.”

ARTICLE II

Special Accounts for Part Z

Section 2.01. The following new section is added at the end of Article II of each Selected Development Credit Agreement:

“Section 2.09. (a) In accordance with any special instructions or arrangements made by the Association, the Borrower may, for the purposes of Part Z of the Project (excluding any activities under any other parts or components of the Project), open and maintain in dollars two separate special deposit accounts – the NWFP On-Farm Special Account and the NWFP CIP II Special Account (together, the “Special Accounts for Part Z”) in the National Bank of Pakistan on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment.

(b) Subject to the provisions of Section 2.09 (a), above, deposits into, and payments out of, each respective Special Account for Part Z shall be made in accordance with the provisions of Schedule 5 to this Agreement (as amended by the Amending Agreement).”
ARTICLE III

Execution of the Project

Section 3.01. The following new section is added at the end of Article III of each Selected Development Credit Agreement:

“Section 3.04. (a) The provisions of this Agreement relating to procurement of the goods, works, and services required for the Project and to be financed out of the proceeds of the Credit shall apply to all Parts of the Project except for Part Z. Except as the Association shall otherwise agree, procurement of the goods, works, and services required for Part Z of the Project and to be financed out of the proceeds of the Credits allocated to Part Z shall be governed by the provisions of Schedule 1 to the Project Agreement for Part Z as said provisions may be further elaborated in the Procurement Plan for Part Z.”

(b) The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part Z of the Project shall be carried out by NWFP pursuant to Section 2.03 of the Project Agreement for Part Z.”

ARTICLE IV

Financial Covenants

Section 4.01. The following new section is added at the end of Article IV of each Selected Development Credit Agreement:

“Section 4.02. (a) The Borrower shall, and shall cause NWFP to maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations, resources and expenditures related to Part Z of the Project.

(b) with respect to Part Z of the Project, the Borrower shall, and shall cause NWFP to:

(i) have the respective financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the date of the Association’s request for such audit, (A) certified copies of the respective financial statements referred to in paragraph (a) of this Section for such period as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account for Part Z activities were made on the basis of Report-Based Disbursements for Part Z referred to in paragraph 10 of Schedule 1 to this Agreement as amended by the Amending Agreement or on statements of expenditure, the Borrower shall, and shall cause NWFP to:

(i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the end of the fiscal year in which the last withdrawal from the Credit Account was made;

(ii) enable the Association’s representatives to examine such records; and

(iii) ensure that such statements of expenditure are included in any audit that the Association may have requested pursuant to paragraph (b) of this Section.

Section 4.03. (a) Without limitation upon the Borrower’s progress reporting obligations under this agreement, the Borrower shall, and shall cause NWFP to prepare and furnish to the Association Financial Monitoring Reports for Part Z, in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for Part Z of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
(ii) describes physical progress in implementation of Part Z of the Project, both cumulatively and for the period covered by said report, and explains variances between the actual and planned implementation; and

(iii) sets forth the status of procurement under Part Z of the Project, as at the end of the period covered by said reports.

(b) The first Financial Monitoring Report for Part Z shall be furnished to the Association not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure for Part Z of the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report for Part Z shall be furnished to the Association not later than forty five (45) days after each subsequent calendar quarter and shall cover such calendar quarter.”

ARTICLE V

Withdrawal of Credit Proceeds

Section 5.01. The existing tables relating to withdrawal of Credit proceeds set out in Schedule 1 to each Selected Development Credit Agreement are deleted and replaced with the tables set out in Annex 1 to this Amending Agreement.

Section 5.02. The following paragraphs are added after the final paragraph of Schedule 1.A in each Selected Development Credit Agreement:

“5. “For Part Z of the Project, the Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than $100,000 equivalent per contract; (b) works costing less than $100,000 equivalent per contract; (c) for services of individual consultants costing less than $50,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than $100,000 equivalent per contract; (e) training; (f) Incremental Operating Costs; and (g) Cash Grants, all under such terms and conditions as the Association shall specify by notice to the Borrower.

6. Notwithstanding the Closing Date indicated in Article II of the Development Credit Agreement, and except as the Association may otherwise agree, no withdrawals shall be made for activities under Part Z of the Project after December 31 2007.
7. The term “incremental operating costs” for purposes of Part Z of the Project means the salaries and allowances and other emoluments of the staff recruited by PCMU, operations, maintenance and/or rental costs of vehicles, operations and maintenance costs of equipment and office premises acquired by the PCMU at the Provincial and District levels, bank charges and the costs of advertising in the media for bids and other purposes related to the Emergency.

8. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of the Amending Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of $6,000,000 may be made in respect of Categories (96), (97), (98) and (99) on account of payments made for expenditures before that date but after February 28, 2005.

9. Notwithstanding the provision of paragraph 1 above, no withdrawal shall be made for Categories (96), (97), (98) and (99) in this Amending Agreement in respect of payments made for expenditures whose contracts have been awarded twelve (12) months after the Effective Date of this Amending Agreement, without the prior approval of the Association.

10. The Borrower may request withdrawals from the Credit Account for Part Z to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements for Part Z). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account in respect of Part Z, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for Part Z of the Project for the six-month (6) period following the date of such request.

11. Notwithstanding the provisions of paragraph 1, above, no withdrawals shall be made in respect of payments made for expenditures under Categories (97) and (99) unless the Borrower has furnished to the Association evidence of satisfactory and acceptable guidelines, eligibility criteria and financial management arrangements.

12. If the Association shall have determined at any time that any amount of the Credit withdrawn for Part Z of the Project was used in a manner inconsistent with the provisions of this Agreement, the Borrower shall, promptly upon notice from the Association, refund to the Association for deposit into the Credit Account, an amount equivalent to the amount so used.”

Section 5.03. The terms “Eligible Categories” and “Eligible Expenditures” wherever they appear in any Selected Development Credit Agreement shall, for the
purposes of the Special Accounts for Part Z, include Categories (96), (97), (98) and (99) set out in the table in Schedule 1 to each Selected Development Credit Agreement.

ARTICLE VI

Project Description

Section 6.01. Schedule 2 to each Selected Development Credit Agreement setting out the description of the Project is amended as set out in Annex 2 to this Amending Agreement.

Section 6.02. In respect of each Selected Development Credit Agreement, the term “Project” shall include, unless the context otherwise requires, all parts of the Project, including Part Z, as described in Schedule 2 to each Selected Development Credit Agreement; provided, however, that in respect of any other agreement or understanding referred to or incorporated in any of the Selected Development Credit Agreement the term “Project” shall not include Part Z thereof.

ARTICLE VII

Effective Date; Termination

Section 7.01. This Amending Agreement will be effective only after the Association dispatches a notice to this effect, upon its receiving the following:

(a) the signed copy of this Amending Agreement;

(b) a legal opinion from the Borrower, satisfactory to the Association, showing that the Amending Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with its terms;

(c) a duly authorized or ratified copy of the Project Agreement for Part Z which is legally binding upon NWFP in accordance with its terms; and

(d) a legal opinion from NWFP, satisfactory to the Association, showing that the Project Agreement for Part Z has been duly authorized or ratified by, and executed and delivered on behalf of, NWFP and is legally binding upon NWFP in accordance with its terms.

Section 7.02. This Amending Agreement shall come into force and effect on the date upon which the Association shall dispatch to the Borrower notice of its acceptance of the evidence required pursuant to Section 7.01 of this Amending Agreement.
Section 7.03. The date ninety (90) days after the date of this Amending Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions. If this Amending Agreement shall terminate under the provisions of this Section, the Development Credit Agreement shall continue in full force and effect, as if this Amending Agreement had not been executed.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Amending Agreement to be signed in their respective names in Islamabad, Pakistan, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ John Wall

Country Director
Pakistan

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Khalid Saeed

Authorized Representative
Annex I

REVISED SCHEDULES FOR
WITHDRAWAL OF CREDIT PROCEEDS

CR 3516-PAK

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>Amount of the Additional Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditure to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Civil Works:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) NWFP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Local minor Irrigation schemes</td>
<td>3,000,000</td>
<td></td>
<td>80%</td>
</tr>
<tr>
<td>(ii) Distributary/minor canals</td>
<td>670,000</td>
<td></td>
<td>80%</td>
</tr>
<tr>
<td>(iii) Main/branch canals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) FATA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Local minor irrigation Schemes</td>
<td>100,000</td>
<td></td>
<td>80%</td>
</tr>
<tr>
<td>(ii) Distributary/minor canals</td>
<td>200,000</td>
<td></td>
<td>80%</td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Credit Allocated (Expressed in SDR Equivalent)</td>
<td>Amount of the Additional Credit Allocated (Expressed in SDR Equivalent)</td>
<td>% of Expenditure to be Financed</td>
</tr>
<tr>
<td>----------</td>
<td>-------------------------------------------------------------</td>
<td>-------------------------------------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>(2) Goods</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Construction materials for watercourses, water storage tanks, and on-farm improvements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) NWFP</td>
<td>2,610,000</td>
<td></td>
<td>65% up to December 7, 2003; 70% up to July 1, 2004; and 90% thereafter</td>
</tr>
<tr>
<td>(ii) FATA</td>
<td>160,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Equipment, vehicles and office furniture:</td>
<td></td>
<td></td>
<td>100% of foreign expenditures; 100% of local expenditures (ex factory cost) and 80% of local expenditures for other items procured locally</td>
</tr>
<tr>
<td>(i) NWFP</td>
<td>25,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) FATA</td>
<td>25,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Consulting services and Training</td>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>(i) NWFP</td>
<td>910,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) FATA</td>
<td>180,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Incremental administrative and operating costs:</td>
<td></td>
<td></td>
<td>90%</td>
</tr>
<tr>
<td>(i) NWFP</td>
<td>1,110,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) FATA</td>
<td>60,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Unallocated</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Credit Allocated (Expressed in SDR Equivalent)</td>
<td>Amount of the Additional Credit Allocated (Expressed in SDR Equivalent)</td>
<td>% of Expenditure to be Financed</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td>(96) Goods, Works, Training and Consultants’ Services, and Incremental Operating Costs for Part Z</td>
<td>3,700,000</td>
<td>2,900,000</td>
<td>100%</td>
</tr>
<tr>
<td>(97) Cash Grants</td>
<td>1,500,000</td>
<td>4,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>Sub-total</td>
<td>14,250,000</td>
<td>6,900,000</td>
<td></td>
</tr>
<tr>
<td>Cancellation (as of 06/10/04)</td>
<td>2,350,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL – Original Credit</td>
<td>16,600,000</td>
<td>6,900,000</td>
<td></td>
</tr>
</tbody>
</table>
CR 3906-PAK

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Civil works</td>
<td>11,694,000</td>
<td>70%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>160,000</td>
<td>100% of foreign expenditures; 100% of local expenditures (ex factory cost) and 80% of local expenditures for other items procured locally</td>
</tr>
<tr>
<td>(3) Consultants’ services</td>
<td>1,130,000</td>
<td>88% of expenditures for foreign firms or individuals; and 98% of expenditures for local firms or individuals</td>
</tr>
<tr>
<td>(4) Training and community mobilization</td>
<td>2,880,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Incremental operating and administrative costs</td>
<td>310,000</td>
<td>60% until June 30, 2005; 55% from July 1, 2005 until June 30, 2007; and 40% thereafter</td>
</tr>
<tr>
<td>(6) Unallocated</td>
<td>460,000</td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Credit Allocated (Expressed in SDR Equivalent)</td>
<td>% of Expenditures to be Financed</td>
</tr>
<tr>
<td>----------</td>
<td>-------------------------------------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td><strong>Allocations for Part Z</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(98) Civil works, Goods, Consultants’ Services, Training and Incremental Operating Costs</td>
<td>4,866,000</td>
<td>100%</td>
</tr>
<tr>
<td>(99) Cash Grants</td>
<td>3,800,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>25,300,000</td>
<td></td>
</tr>
</tbody>
</table>
Annex 2

PROJECT DESCRIPTION FOR PART Z

1. In each Selected Development Credit Agreement, a new paragraph is inserted after the first paragraph of Schedule 2 (Description of the Project) setting out an additional objective of the Project as follows:

“A further objective of the Project is to assist NWFP in carrying out a program to restore vital economic and social infrastructure in the Affected Areas.”

2. In each Selected Development Credit Agreement, the following new Part is added at the end of Schedule 2 (Description of the Project):

“Part Z: Emergency Flood and Earthquake Recovery and Mitigation Program

1. Restoration of economic and social infrastructure through the carrying out of Sub-Projects for:

(a) the reconstruction and repair of damaged road embankments, pavements, culverts, bridges, retaining walls, and other ancillary works;

(b) the reconstruction and repair of buildings such as schools, health facilities and government administration buildings, including, reconstruction and repair to damaged boundary walls, rooms, sanitary facilities, and other ancillary works, and carrying out repairs and/or replacement of basic furniture and fixtures;

(c) the repair of damaged pipelines, pumping equipment, and other ancillary works; and

(d) the repair of breaches in irrigation canal embankments, removal of debris deposited in the canal prisms, control structures, canal cross drainage structures and outlet structures.

2. Strengthening of the safety nets and disaster preparedness programs through:

(a) Provision of Cash Grants; and

(b) Provision of in-kind assistance to Affected Communities including distribution of agricultural inputs and technology and provision of medical
assistance through the establishment and strengthening of model medical camps in the Affected Areas.

3. Project Management and Implementation Support

    Provision of technical and financial assistance for the management and monitoring and evaluation of activities under Part Z of the Project.”
Annex 3

The following Schedule 5 is inserted in each Selected Development Credit Agreement.

SCHEDULE 5

Operation of the Special Accounts for Part Z

1. In accordance with any special instructions or arrangements made by the Association, the Borrower may, for the purposes of Part Z of the Project (excluding any activities under any other parts or components of the Project), open and maintain in dollars two separate special deposit accounts – the NWFP On-Farm Special Account and the NWFP CIP II Special Account (together, the “Special Accounts for Part Z”) - in the National Bank of Pakistan on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment.

2. After the Association has received evidence satisfactory to it that the Special Accounts for Part Z have been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Accounts for Part Z shall be made as follows:

   (a) if the Borrower is not making Report-based Disbursements for Part Z, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 5; and

   (b) if the Borrower is making Report-based Disbursements for Part Z, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 5.

3. Payments out of the Special Accounts for Part Z shall be made exclusively for Eligible Expenditures incurred for Part Z of the Project. For each payment made by the Borrower out of the Special Accounts for Part Z, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures under Part Z of the Project.

4. Notwithstanding the provisions of paragraph 2 of this Schedule 5, the Association shall not be required to make further deposits into the Special Accounts for Part Z:
(a) if the Association, at any time, is not satisfied that the reports referred to in paragraph 10 of Schedule 1 to the Development Credit Agreement (as amended) relating to Part Z of the Project adequately provide the information required for Report-based Disbursements for Part Z of the Project;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures incurred for Part Z of the Project should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.02 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Accounts for Part Z; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements for Part Z or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Accounts for Part Z in accordance with the provisions of paragraph 2 of this Schedule 5 if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Accounts for Part Z may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Accounts for Part Z was made for an expenditure which is not an Eligible Expenditure for Part Z of the Project, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Accounts for Part Z (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Accounts for Part Z shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Accounts for Part Z will not be required to cover payments for Eligible Expenditures for Part Z of the Project during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) the Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Accounts for Part Z.
(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

Annex A
to
SCHEDULE 5

Operation of the Special Accounts for Part Z
When Withdrawals Are Not Report-based Disbursements for Part Z

1. Without prejudice to the other provisions of this Agreement, for the purposes of this Annex A to Schedule 5, the term “Authorized Allocation for Part Z” means the specific amount indicated against the name of this Project in paragraph 4 to be withdrawn from the Credit Account and deposited into the Special Accounts for Part Z pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation for Part Z and subsequent withdrawals to replenish the Special Accounts for Part Z shall be made as follows:

   (a) For withdrawals of the Authorized Allocation for Part Z, the Borrower shall furnish to the Association a request or requests for deposit into the Special Accounts for Part Z of an amount or amounts which in the aggregate do not exceed the Authorized Allocation for Part Z. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Accounts for Part Z such amount as the Borrower shall have requested.

   (b) For replenishment of the Special Accounts for Part Z, the Borrower shall furnish to the Association requests for deposit into the Special Accounts for Part Z at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 3 of Schedule 5 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Accounts for Part Z such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Accounts for Part Z for Eligible Expenditures under Part Z of the Project. Each such deposit into the Special Accounts for Part Z shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. Without prejudice to the other provisions of this Agreement, the Association shall not be required to make further deposits into the Special Accounts for Part Z, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the
General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation for Part Z. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Accounts for Part Z as of the date of such notice will be utilized in making payments for Eligible Expenditures for Part Z of the Project.

4. The “Authorized Allocation for Part Z” for this Project shall be determined according to the amount indicated against its name in the following table.

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>NWFP On-Farm Water Management Project (Credit Number 3516-PAK)</td>
<td>US$ 2,000,000</td>
</tr>
<tr>
<td>Second NWFP Community Infrastructure Project (Credit Number 3906-PAK)</td>
<td>US$ 2,000,000</td>
</tr>
</tbody>
</table>
Annex B
to
SCHEDULE 5

Operation of the Special Accounts for Part Z
When Withdrawals Are Report-based Disbursements for Part Z

1. Without prejudice to the other provisions of this Agreement, withdrawals from the Credit Account shall be deposited by the Association into the Special Account for Part Z in accordance with the provisions of Schedule 5 to this Agreement. Each such deposit into the Special Account for Part Z shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Accounts for Part Z an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in paragraph 10 of Schedule 1 to the Development Credit Agreement (as amended) applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures for Part Z of the Project during the six-month period following the date of such reports.