Mr. Tariq Mahmood Pasha  
Secretary  
Economic Affairs Division  
Government of Pakistan  
Islamabad

Re: Islamic Republic of Pakistan: KP/FATA/Balochistan Multi-Donor Trust Fund  
(TF013560-PK)  
(Khyber Pakhtunkhwa Southern Area Development Project)  
Amendment to the Grant Agreement

Dear Mr. Pasha:

We refer to the Grant Agreement, dated February 6, 2013, between the Islamic Republic of Pakistan (the “Recipient”) and the International Bank for Reconstruction and Development and the International Development Association (collectively, the “World Bank”), acting as administrator of the KP / FATA / Balochistan Multi-Donor Trust Fund (“Grant Agreement”), and the Project Agreement dated the same date as the Grant Agreement, between the World Bank and the Khyber Pakhtunkhwa Province, for the above-referenced Project (the “Project”). We also refer to the Economic Affairs Division’s letter dated April 4, 2016, requesting the World Bank to provide an additional grant to scale-up and restructure the Project. We also refer to the decision of the MDTF Steering Committee on June 8, 2016, to request the World Bank to provide additional grant to scale-up and restructure the Project.

Under the Grant Agreement, the World Bank extended to the Recipient a grant in an amount equivalent to eighteen million Dollars (US$18,000,000) (“Original Grant”) to assist in the financing of the Project. Pursuant to the MDTF Steering Committee’s request referred to above, the World Bank agrees to extend to the Recipient an additional grant in an amount not to exceed four million United States Dollars (US$4,000,000) (“Additional Grant”). Accordingly, the World Bank proposes to amend the Grant Agreement as set forth below in this Letter of amendment (the “Letter of Amendment”). The Project Agreement will be amended in a separate letter to be agreed between the World Bank and Khyber Pakhtunkhwa Province.

Capitalized terms used but not defined in this Letter of Amendment have the meanings given to them in the Grant Agreement as amended, and the Standard Conditions, as applicable.

1. Section 3.01 of the Grant Agreement is amended as follows:

“The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to twenty two million Dollars ($22,000,000) to assist in financing the Project, which consists of: (a) the Original Grant in an
amount equal to eighteen million Dollars (US$18,000,000); and (b) the Additional Grant in an amount equal to four million Dollars (US$4,000,000), together referred to as the “Grant.”

2. Schedule 1 (Project Description) is amended as set forth in Attachment 1 to this Letter of Amendment.

3. Section IC of Schedule 2 to the Grant Agreement is amended as follows:

   “B. Anti-Corruption

   The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016”.

4. A new paragraph 4 is added to Section IIC of Schedule 2 of the Grant Agreement as follows:

   “4. Without limiting the requirements of the foregoing sub-paragraphs 1 through 3 above, for the purposes of this Section, not later than October 30, 2017, the Recipient shall engage as internal auditors, a firm of chartered accountants, or any other arrangements satisfactory to the World Bank, to be responsible for audits under the Project.”

5. Section III of Schedule 2 to the Grant Agreement is amended as follows:

   “Section III. Procurement

   All goods, works, non-consulting services and consulting services (including for audits) required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in the Procurement Regulations and the provisions of the Procurement Plan.”

6. The Annex to Schedule 2 (National Competitive Bidding: Additional Provisions) is deleted in its entirety.

7. Section IV of Schedule 2 to the Grant Agreement is amended as follows:

   “Section IV. Withdrawal of Grant Proceeds

   A. General

   Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated February 2017, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance one hundred percent (100%) of Eligible Expenditures consisting of Subproject Grants, goods, works, non-consulting services, consultants’ services (including for audits), Trainings, and Operating Costs under the Project.”
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Letter of Amendment, except that withdrawals up to an aggregate amount not to exceed US$18,000,000 (the amount of the Original Grant) may be made for payments made on or after February 6, 2013, of which withdrawals up to an aggregate amount not to exceed US$1,500,000 equivalent may be made for payments made prior to February 6, 2013, but on or after May 1, 2012, for Eligible Expenditures.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2018.

8. The Appendix (Definitions) to the Grant Agreement is replaced by the revised definitions in Attachment 2 to this Letter of Amendment.

Except as specifically amended by this Letter of Amendment, all other provisions of the Grant Agreement remain in full force and effect.

Please confirm your agreement to the foregoing by signing the form of confirmation set forth below and returning one fully executed original of this Letter of Amendment to us and retaining one original for your records. Upon receipt by the World Bank of the countersigned copy, this Letter of Amendment shall become effective as of the date of the countersignature.

Sincerely,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as administrator of the KP / FATA / Balochistan Multi-Donor Trust Fund

[Signature]
Patchamuthu Illangovan
Country Director, Pakistan
South Asia Region

AGREED
ISLAMIC REPUBLIC OF PAKISTAN

By: ____________________________
Name: Tarig Mahmood Pasha
Title: Secretary, Economic Affairs Division
Date: March 30, 2017
SCHEDULE 1

Project Description

The objective of the Project is to strengthen the capacity of the poor to improve their livelihood options through access to social and productive infrastructure using participatory approaches in selected districts of southern Khyber Pakhtunkhwa Province.

The Project consists of the following parts:

A. Community Development and Social Capital Building

1. Facilitation

Recruitment and training of facilitators for the provision of guidance to Economic Interest Groups and Community-Based Organizations in relation to social mobilization, capacity building, and community planning through inclusive, transparent, and participatory planning processes leading to the development of Community Action Plans.

2. Advisory Services and Input Support

Provision of advisory services in relation to crop and livestock management (both on-farm and off-farm), and of input support, including adoption of new technology to enhance capacity to purchase inputs, to farming and post-production processing to Economic Interest Groups and Community-Based Organizations, capacity building of said groups/organizations for purposes of facilitating access to such advisory services and input support and in relation to participatory planning and operation and maintenance of Subprojects, and economic mobilization of said groups/organizations for enterprise development.

3. Communications and Knowledge

Carrying out of a communications and knowledge program in relation to the Project for local communities and other stakeholders.

B. Community Driven Investment Program

1. Social Infrastructure

Rehabilitation, rebuilding, and improvement of social infrastructure, such as schools, feeder roads, culverts, bridges, drifts, stock trading routes, boreholes, community health facilities, potable water supply facilities, rural electrification, and community water storage tanks, on the basis of Community Action Plans.

2. Productive Infrastructure

Establishment of small-scale productive physical and socioeconomic infrastructure, income-earning assets, and extension service-type activities, such as vocational training / skills development centers, community grain storage facilities, community agro-processing facilities, cattle troughs, small to medium irrigation schemes, resting
points along stock trading routes, livestock water pools, on-farm technology improvements, and other key infrastructure, based on collective demand, all principally in the agriculture and livestock sectors and focusing mainly on farming activities, youth income generation and sustainable livelihoods.

3. **Asset Building for the Ultra-Poor**

Provision of emergency assistance to the ultra-poor and the vulnerable for the purposes of reacquisition of lost assets, such as shelter or income sources (livestock, poultry, etc), and rejoining economic activity.

C. **Project Management and Implementation Support**

Project management, development of a communications strategy, a governance and accountability framework, and a monitoring and evaluation system in relation to the Project, exploration of introduction of new or innovative approaches to community-government partnerships, minor repairs to district offices in participating districts, and capacity building of Project staff in relation to Project implementation.
APPENDIX

Section I. Definitions

1. "Asset-Building Subproject" means a specific asset-building investment activity carried out under Part B.3 of the Project, financed or proposed to be financed through an Asset-Building Subproject Grant (as hereinafter defined) in accordance with the eligibility criteria specified in Section I.F.2 of the Schedule to the Project Agreement and in further detail in the Project Operations Manual (as hereinafter defined).

2. "Asset-Building Subproject Grant" means a cash award made or proposed to be made to an Asset-Building Subproject Grant Beneficiary out of the proceeds of the Grant to finance an Asset-Building Subproject pursuant to an Asset-Building Subproject Grant Agreement (as hereinafter defined).

3. "Asset-Building Subproject Grant Agreement" means an agreement, referred to in Section I.F.3 of the Schedule to the Project Agreement, between the Recipient, acting through the Project Management Unit, and an Asset-Building Subproject Grant Beneficiary (as hereinafter defined), setting forth the terms and conditions governing an Asset-Building Subproject Grant.

4. "Asset-Building Subproject Grant Beneficiary" means a Community-Based Organization or an Economic Interest Group (as hereinafter defined) meeting specific criteria set forth in the Project Operations Manual and which is the beneficiary of an Asset-Building Subproject Grant and party to an Asset-Building Subproject Grant Agreement.

5. "Balochistan" means the Recipient’s administrative subdivision of that name in the southwest of its territory or a successor thereto.

6. "Beneficiary" means an Asset-Building Subproject Grant Beneficiary or an Infrastructure Subproject Grant Beneficiary.

7. "Community Action Plans" means, collectively, communities’ agreed plans setting forth Subprojects (as hereinafter defined), constraints and opportunities to be addressed through the provision of advisory services in relation to enterprise production and marketing, mechanisms for financing the operation and maintenance of Subprojects, a plan for the capacity building of Community-Based Organizations and Economic Interest Groups, in relation to financial management, community-based procurement, environmental and social impact screening of Infrastructure Subprojects, conflict mitigation and management, and other aspects of the organization and management of associations, potential recipients of Subproject Grants, and a mechanism for the management and resolution of conflicts, especially in relation to user group rights, and such term includes any annexes or schedules to such plans.

8. "Community-Based Organization" means a public or private nonprofit organization of demonstrated effectiveness that is representative of a community or significant segments of a community; and provides development or related services to individuals in the community.

9. "District" means the settled areas of the districts of Dera Ismail Khan, or Laki Marwat or Tank in Khyber Pakhtunkhwa province.
10. “District Implementation Unit” or the acronym “DIU” means a unit established within a District to assist the PMU in implementation of the Project.

11. “Economic Interest Groups” means duly constituted economic affinity-based community groups or successors thereto.

12. “Environmental and Social Assessment” means the Project Implementing Entity’s assessment, dated September 24, 2012, prepared in accordance with the provisions of the Environmental and Social Screening and Assessment Framework (as hereinafter defined), and agreed with the World Bank, and setting forth the environmental and social impacts of the Project, as the same may be modified from time to time with the prior written agreement of the World Bank, and such term includes any annexes or schedules to such assessment.

13. “Environmental and Social Management Plan” means the Project Implementing Entity’s plan, dated September 24, 2012, prepared in accordance with the provisions of the Environmental and Social Assessment, and agreed with the World Bank, and setting forth guidelines for the environmental and social screening of Subprojects and mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, to eliminate any adverse environmental and social impacts of Subprojects, offset them, or reduce them to acceptable levels, or enhance positive impacts, as the same may be modified from time to time with the prior written agreement of the World Bank, and such term includes any annexes or schedules to such plan.

14. “Environmental and Social Screening and Assessment Framework” means the World Bank’s framework, dated December 2010, agreed with the World Bank and setting forth guidelines relating to mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, to eliminate any adverse environmental and social impacts of projects under the KP / FATA / Balochistan Multi-Donor Trust Fund (as hereinafter defined), offset them, or reduce them to acceptable levels, or enhance positive impacts, as the same may be modified from time to time with the prior written agreement of the World Bank, and such term includes any annexes or schedules to such framework.

15. “FATA” or “Federally Administered Tribal Areas” means the Recipient’s administrative subdivision of that name in the northwest of its territory or a successor thereto.

16. “Financial Management Manual” means the Recipient’s manual, dated March 2012 and agreed with the World Bank, setting out financial management and disbursement arrangements for purposes of projects under the KP / FATA / Balochistan Multi-Donor Trust Fund, as the same may be modified from time to time with the prior written agreement of the World Bank, and such term includes any annexes or schedules to such manual.

17. “Infrastructure Subproject” means a specific infrastructure investment activity carried out under Parts B.1 or B.2 of the Project, financed or proposed to be financed through an Infrastructure Subproject Grant (as hereinafter defined) in accordance with the eligibility criteria specified in Section I.F.2 of the Schedule to the Project Agreement and in further detail in the Project Operations Manual.

18. “Infrastructure Subproject Grant” means a cash award made or proposed to be made to an Infrastructure Subproject Grant Beneficiary out of the proceeds of the Grant to finance an Infrastructure Subproject pursuant to an Infrastructure Subproject Grant Agreement.
19. "Infrastructure Subproject Grant Agreement" means an agreement, referred to in Section I.F.3 of the Schedule to the Project Agreement, between the Recipient, acting through the Project Management Unit, and a Beneficiary, setting forth the terms and conditions governing an Infrastructure Subproject Grant.

20. "Infrastructure Subproject Grant Beneficiary" means a Community-Based Organization or Economic Interest Group meeting specific criteria set forth in the Project Operations Manual and which is the beneficiary of an Infrastructure Subproject Grant and party to an Infrastructure Subproject Grant Agreement.

21. "Involuntary Resettlement" means: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not the affected person must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of the affected person.

22. "KP", "Khyber Pakhtunkhwa", or "Khyber Pakhtunkhwa Province" means the Recipient's administrative subdivision of that name in the northwest of its territory or a successor thereto.

23. "KP / FATA / Balochistan Multi-Donor Trust Fund" means the multi-donor trust fund, approved by the Board of Executive Directors of the World Bank on January 15, 2010 and administered by the World Bank, the objective of which is to support the implementation of a program of reconstruction and development aimed at facilitating the recovery of affected regions in KP, FATA, and Balochistan from the impact of armed conflict and reducing the potential for escalation or resumption, or any successor thereto.

24. "Local Government Elections, and Rural Development Department" means the Project Implementing Entity's department responsible for the management of Local Government Election, and rural development, or a successor thereto.

25. "Operating Costs" means the incremental operating costs under the Project incurred by the Recipient and the Project Implementing Entity for purposes of Project management and implementation, on the basis of the annual work plans and budgets referred to in Section I.E of the Schedule to the Project Agreement, on account of office supplies and consumables, utilities, bank charges, communications, mass media and printing services, vehicle rental, operation, maintenance, and insurance, building and equipment maintenance, domestic travel, lodging, and subsistence allowances, and salaries of contractual and temporary staff, but excluding salaries and any salary supplements of members of the Recipient's or the Project Implementing Entity's civil service.

26. "Procurement Plan" means the Recipient's procurement plan for the Project, dated March 17, 2017 as provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the World Bank.


28. "Planning and Development Department" or its acronym "P&DD" means the Planning and Development Department of the Project Implementing Entity or any successor thereto.

29. "Project Implementing Entity" means the Recipient's Province of Khyber Pakhtunkhwa.
30. "Project Management Unit" means the Project Implementing Entity's unit, under the Local Government Election, and Rural Development Department, established and operating pursuant to the Project Implementing Entity’s Notification No. Dir (LG)PDWP19.9.2012/2012 dated October 11, 2012 and responsible for the day-to-day management and implementation of projects in KP, or a successor thereto.

31. "Project Operations Manual" means the Project Implementing Entity's manual, dated November 2012, adopted pursuant to its Notification No. Dir (LG/SADP)/2012 dated November 27, 2012, and updated March 30, 2017, and agreed with the World Bank, setting out implementation, organizational, administrative, monitoring and evaluation (including the Project's performance indicators), financial management, disbursement, and procurement arrangements for purposes of Project implementation, as the same may be modified from time to time with the prior written agreement of the World Bank, and such term includes any annexes or schedules to such manual.

32. "Project Steering Committee" means the Project Implementing Entity's committee referred to in Sections I.A.2 and 3 of the Schedule to the Project Agreement, to be established for purposes of Project policy and strategic orientation, or a successor thereto.

33. "Subproject/Activity Review and Approval Committee" or "SARAC" means the Project Implementing Entity's committee, constituted under the Notification No. KP-SADP/PD/2014/971-4, for each District under the Project Management Unit, referred to in Section I.A.5 of the Schedule to the Project Agreement, and previously referred to as the "District Review Committee" or its successor thereto.

34. "Safeguards Instruments" means, collectively, the Environmental and Social Screening and Assessment Framework, together with the Environmental and Social Assessment, and the Environmental and Social Management Plan.

35. "Subprojects" means, collectively: (a) Infrastructure Subprojects; and (b) Asset-Building Subprojects.

36. "Subproject Grant Agreements" means, collectively: (a) Infrastructure Subproject Grant Agreements; and (b) Asset-Building Subproject Grant Agreements.

37. "Subproject Grants" means, collectively: (a) Infrastructure Subproject Grants; and (b) Asset-Building Subproject Grants.

38. "Training" means the cost of training financed under the Project, on the basis of the annual work plans and budgets referred to in Section I.E of the Schedule to the Project Agreement, attributable to seminars, workshops, and study tours, along with the cost of domestic and international travel and subsistence for training participants, services of trainers, rental of training facilities, preparation and reproduction of training materials, and other activities directly related to training preparation and implementation.