October 5, 2012

H.E. Mr. H.G. Scheltema
Ambassador of the Netherlands
Kingdom of the Netherlands
Diplomatic Enclave
Islamabad
Islamic Republic of Pakistan

Trust Fund Administration Arrangement between the Kingdom of the Netherlands, Minister for European Affairs & International Cooperation and the International Bank for Reconstruction and Development and the International Development Association concerning the KP/FATA/Balochistan Multi-Donor Trust Fund (TF No.071424)

Excellency

1. We are pleased to acknowledge on behalf of the International Bank for Reconstruction and Development ("IBRD") and the International Development Association ("IDA") (collectively, the "Bank") that the Kingdom of the Netherlands, as represented by the Minister for European Affairs & International Cooperation (the "Donor") will make available as a grant the sum of five million United States dollars (US$5,000,000) (the "Contribution") for the KP/FATA/Balochistan Trust Fund (the "Trust Fund") in accordance with the terms of this administration arrangement (the "Arrangement"). Other donors are also expected to contribute to the Trust Fund pursuant to the provisions specified in the Annexes to this Arrangement.

2. The Contribution will be used to finance the activities and the categories of expenditure set forth in the "Description of Activities, Expenditures and Governance Arrangements for the KP/FATA/Balochistan Trust Fund" attached hereto as Annex 1, and will be administered by the Bank on behalf of the Donor in accordance with the provisions of this Arrangement including the "Standard Provisions Applicable to the KP/FATA/Balochistan Trust Fund" (the "Standard Provisions") attached hereto as Annex 2 and the "Standard Provisions Applicable to Grants Made by the World Bank, as Administrator of Various Trust Funds, to UN Organizations that are Signatories to the Fiduciary Principles Accord concluded in December 2008", dated April 2009 ("FPA Standard Provisions").
3. The Donor will deposit the Contribution into such bank account designated by the Bank, in installments in accordance with the following schedule:

(a) Promptly following countersignature of this Arrangement by the Donor, upon submission of a payment request by the Bank the sum of one million and two hundred fifty thousand United States dollars (US$1,250,000)

(b) On or before December 31, 2013, upon submission of a payment request by the Bank, based on the financial needs of the Trust Fund, the sum of one million and eight hundred seventy five thousand United States dollars (US$1,875,000); and

(c) On or before December 31, 2014, upon submission of a payment request by the Bank, based on the financial needs of the Trust Fund, the sum of one million and eight hundred seventy five thousand United States dollars (US$1,875,000).

4. When making each such deposit, the Donor will instruct its bank to include in its payment details information (remittance advice) field of its SWIFT payment message, information indicating: the amount paid, that the payment is made by the Donor for T: No.071424 (the KP/FATA/Balochistan Trust Fund), and the date of the deposit (the “Deposit Instruction”). In addition, the Donor will provide a copy of the Donor’s Deposit Instruction to the Bank’s Accounting Trust Funds Division by e-mail sent to tfremitadvice@worldbank.org or by fax sent to (202) 614-1315.

5. The Bank will convert the Contribution funds into the holding currency of the Trust Fund, namely United States Dollars, promptly upon receipt of the Contribution funds and the Deposit Instruction containing the information specified in paragraph 4 at the exchange rate obtained by the Bank on the date of the conversion. Where the Contribution proves to be insufficient to complete the activities as a result of an exchange rate fluctuation, neither the Bank nor the Donor will bear any responsibility for providing any additional financing.

6. Except as provided for in paragraph 4 above, any notice, request or other communication to be given or made under this Arrangement will be in writing and delivered by mail, facsimile or e-mail to the respective party’s address specified below or at such other address as such party notifies in writing to the other party from time to time:

For the Bank:

Robert Bou Jaoude
Task Team Leader / Program Coordinator
SACPK
The World Bank
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For the Donor:

H.E. Mr H.G. Scheltema
Ambassador of the Netherlands
Kingdom of the Netherlands
Diplomatic Enclave
Islamabad
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7. All annexes and the FPA Standard Provisions hereto constitute an integral part of this Arrangement. This Arrangement may be amended only in writing between the Bank and the Donor; provided, however, that such annexes and the FPA Standard Provisions may be amended only with the concurrence of all donors contributing to the Trust Fund.

8. Please confirm your acceptance with the foregoing, on behalf of the Donor, by signing and dating the two originals, retaining one original for your records and returning the other original to the Bank. Upon receipt by the Bank of the original Arrangement countersigned by you, this Arrangement will be deemed effective as of October 1, 2012, and will be completed by June 30, 2015. Notwithstanding the foregoing, the World Bank shall be entitled to continue with disbursements out of the Trust Fund account pursuant to Section 8.2 of Annex 1 hereto.

9. It is understood that this Arrangement is not an international treaty, but an Administration Arrangement between the Kingdom of Netherlands and the Bank.

Sincerely,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

Rachid Benmessaoud
Country Director, Pakistan
ACCEPTED and APPROVED:

KINGDOM OF NETHERLANDS
Represented by the
MINISTRY FOR EUROPEAN AFFAIRS &
INTERNATIONAL COOPERATION

By: H.E. Mr H.G. Scheltema
Ambassador of the Netherlands

Date: October 10, 2012

ANNEX 1

PROGRAM OBJECTIVES, DESCRIPTION OF ACTIVITIES AND EXPENDITURES, AND GOVERNANCE ARRANGEMENTS FOR THE KP/FATA/BALOCHISTAN TRUST FUND

This Annex will be applicable to, and form an integral part of, all arrangements signed between the Bank and entities (collectively, the “Donors”) that provide contributions (the aggregate of all contributions from the Donors, the “Contributions”) to be administered by the Bank for the captioned trust fund (the “Trust Fund”).

A. Description of Activities

The purpose of the KP/FATA/Balochistan Trust Fund is to support the implementation of a program of reconstruction and development aimed at facilitating the recovery of the affected regions in the Khyber Pakhtunkhwa Province (“KP”), the Federally Administered Tribal Areas (“FATA”) and the Province of Balochistan (“Balochistan”) from the impact of (i) the armed conflict, reducing the potential for escalation or resumption; and (ii) the floods of 2010.

To this end, the KP/FATA/Balochistan Trust Fund will finance projects intended to: (i) promote enhanced, sustainable and accountable delivery of basic services; (ii) support livelihoods and community-based development of basic infrastructure and services; (iii) help communities to access assets and market opportunities and create the basis for viable income generating activities; (iv) support peace building and recovery, rehabilitation and reconstruction activities, and promote rapid crisis recovery in KP, FATA and conflict-affected districts of Balochistan; and (v) strengthening, (re)building and/or maintaining government institutions in order to improve governance, the overall institutional performance and state effectiveness.

The KP/FATA/Balochistan Trust Fund will have a recipient-executed window and a Bank-executed one, pursuant to the following description of activities:

Recipient-Executed Trust Fund Activities:

(a) Restoring damaged infrastructure and disrupted services, including *inter alia*: (i) reconstructing health, education and government buildings, and providing equipment and supplies therefor; (ii) restoring damaged infrastructure in the power, transport, water supply, sanitation and irrigation sectors; and (iii) carrying out a program for owner-driven reconstruction or repair of housing damaged during the armed conflict and/or the floods of 2010.

(b) Improving local (district and/or union) service delivery, including *inter alia*: (i) increasing the capacity and accountability of local governments for resource management and service delivery; and (ii) providing basic infrastructure and delivering basic services to low income communities through community-driven development interventions.
(c) Improving provincial governance and service delivery, including, *inter alia*: (i) strengthening coverage, quality and governance of the education system by: (A) increasing enrolment rates, with particular emphasis on narrowing gender disparities, and improving learning outcomes; (B) strengthening administration and operation of schools; and (C) promoting better monitoring and evaluation (accountability) mechanisms; (ii) strengthening the quality of primary and secondary health care services, as well as the stewardship of the health system; (iii) improving the coverage, targeting, efficiency and cost-effectiveness of the social protection system; (iv) strengthening justice service delivery and the rule of law; and (v) strengthening the institutional and technical capabilities of civil administration.

(d) Maintaining and/or reinforcing livelihoods of local communities through increased access to productive assets and market opportunities in order to facilitate income generating activities, including *inter alia*: (i) augmenting and/or recovering lost livestock; (ii) providing agricultural inputs such as fertilizers and seeds, and/or preparing land plots to restore production; (iii) providing micro-credits to low income communities; (iv) providing skills development and business development training to rural community members to foster new business ventures among poor rural households; and (v) promoting women’s greater involvement and decision-making in income generating activities.

(e) Strengthening the technical capacity, and institutional arrangements and coordination, of KP’s and Balochistan’s line departments and agencies, as well as the FATA Secretariat, in order to carry out the post-crisis reconstruction efforts, including *inter alia*: (i) reviewing and revising policies, where appropriate, to consolidate peace and avert future conflicts by addressing their underlying causes; and (ii) supporting the KP’s Provincial Reconstruction, Rehabilitation and Settlement Authority and FATA’s Disaster Management Authority.

**Bank-Executed Trust Fund Activities:**

(a) Providing technical advice to, and coordinating capacity building activities for, the Pakistan’s, KPs’, FATA Secretariat’s and Balochistan’s governmental agencies and officials, including *inter alia*: (i) preparing analytical and advisory assistance studies, economic sector work, and sector strategy papers; and (ii) providing training to government officials.

(b) Establishing, managing and maintaining the KP/FATA/Balochistan Trust Fund’s Secretariat, and complying with Donors’ coordination, reporting and fiduciary requirements applicable to the Trust Fund.

(c) Processing project proposals, including *inter alia*: appraising, monitoring, supervising and evaluating the execution of recipient-executed projects funded by the Trust Fund, as well as the impact thereof.
(d) Administering the KP/FATA/Balochistan Trust Fund.

B. Categories of Expenditures

For recipient-executed activities, the Contributions may be used to finance 100% of the costs of: (a) goods, works and services (other than consultants’ services); (b) consultants services; (c) recurrent costs; (d) conditional cash transfers; (e) sub-grants (both in cash or in kind); (f) training and workshops; (g) incremental operating costs; (h) interest during construction; and (i) resettlement compensation (including land purchase).

Notwithstanding the foregoing, the Donors accept that in the event that the Trust Fund were to finance a recipient-executed project implemented, whether in whole or in part, by a United Nations’ agency or program signatory to the Fiduciary Principles Accord concluded in December 2008 (the “FPA”), the Bank will on-grant or disburse the proceeds of the Trust Fund to such signatory agency or program: (the “UN-FPA Signatory”) pursuant to the provisions of the FPA, for the financing of the expenditures incurred by the UN-FPA Signatory during the implementation of said project, in accordance with the UN-FPA Signatory’s rules, regulations, policies and procedures consistent with the standards reflected in the FPA, and the FPA Standard Provisions.

For Bank-executed activities the Contributions may be used to finance 100% of the costs of: (a) associated overheads; (b) consultants’ fees (including extended and short term consultants); (c) contractual services; (d) leasing of equipment; (e) media, training and workshops; (f) regular staff; (g) temporary support staff; and (h) travel expenses.

C. Governance Arrangements

The KP/FATA/Balochistan Trust Fund will have a two-tier governance structure consisting of a Trust Fund Steering Committee (“TFSC”) and an Administrator/Trust Fund Secretariat as described herein below:

(a) The TFSC will consist of representatives from all contributing Donors, the Islamic Republic of Pakistan (Pakistan) (i.e. the Federal Government, and or the KP/FATA/Balochistan Trust Fund targeted provinces and territories, and/or subdivisions or agencies thereof) and the Bank, acting as the Administrator/Trust Fund Secretariat.

The TFSC will be co-chaired by Pakistan and the Bank, acting as Administrator/Trust Fund Secretariat. The Asian Development Bank, United Nations Development Programme and Islamic Development Bank shall act as advisory members of the TFSC.

The TFSC shall: (i) meet no less than once every six months, in Islamabad, Pakistan, or in such place as the TFSC may decide; and (ii) act collectively and, to the extent practicable, make decisions by consensus.
In the absence of a consensus, matters shall be decided according to such voting rules and procedures as the TFSC shall prescribe.

The TFSC will: (i) endorse the overall priorities and provide policy direction to the Administrator/Trust Fund Secretariat on the Trust Fund’s strategic goals; (ii) review the progress on the projects’ and Trust Fund’s envisioned results and the performance thereof; (iii) provide advocacy support for the Trust Fund; and (iv) review and approve the financial strategy for the overall allocation of resources among the various pillars of the recipient-executed interventions as well as review and approve any sub-granting to international organizations.

(b) The Bank acting as Administrator/Trust Fund Secretariat will: (i) handle the day-to-day operations of the Trust Fund, including coordinating development partners and Donors cooperation, and maintaining the Trust Fund’s records; (ii) arrange/coordinate TFSC’s meetings and communications, as well as the maintenance of records thereof; (iii) review and approve the initiating grant requests, including budget allocations, submitted by Pakistan’s federal government, and/or the departments or agencies of KP, Balochistan or the FATA Secretariat (except for grants to be implemented under the FPA); (iv) provide guidance and clarification to project applicants and grant recipients on the Trust Fund policies, processes and procedures; (v) coordinate project-specific activities (for all projects other than those executed under the FPA) such as project appraisals, supervision, monitoring and evaluation, and the recruitment and/or assignment/secondment of appropriate project staff; (vi) prepare semi-annual reports on the Trust Fund performance for submission and approval by the TFSC; and (vii) ensure effective communication and dissemination of the Trust Fund activities and coordinate the Trust Fund external relations.

The Administrator/Trust Fund Secretariat shall serve as focal point for any comments or complaints as to the functioning of the Trust Fund, including consistency with overall guidance provided by the TFSC, the identification and selection of projects and recipients of grants, compliance with procurement procedures, and monitoring and evaluation of project implementation. The Administrator/Trust Fund Secretariat shall: (i) report immediately to the members of the TFSC any serious breach of the rules herein established for the KP/FATA/Balochistan Trust Fund; and (ii) report on an annual basis any such comments or complaints that shall have been received by the Administrator/Trust Fund Secretariat, and the actions taken in their response.

Projects to be implemented by a UN-FPA Signatory pursuant to the FPA will be approved pursuant to the FPA Standard Conditions.
ANNEX 2

STANDARD PROVISIONS APPLICABLE TO THE KP/FATA/BALOCHISTAN TRUST FUND

This Annex will be applicable to, and form an integral part of, all arrangements signed between the Bank and the Donors that provide Contributions to be administered by the Bank for the Trust Fund.

1. Administration of the Contributions

1.1. The Bank will be responsible only for performing those functions specifically set forth in this Arrangement and will not be subject to any other duties or responsibilities to the Donors, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. Nothing in this Arrangement will be considered a waiver of any privileges or immunities of the IBRD and IDA under their Articles of Agreement or any applicable law, all of which are expressly reserved.

1.2. The Contributions will be administered in accordance with the Bank’s applicable policies and procedures, as the same may be amended from time to time, including its framework to prevent and combat fraud and corruption.

1.3. Recognizing the obligations of the Donors under various United Nations Security Council Resolutions to take measures to prevent financing of terrorists, the Bank will undertake reasonable efforts, consistent with the IBRD and IDA’s Articles of Agreement and policies, including those pertaining to combating financing for terrorists, to ensure that the Contributions are used for their intended purposes and are not diverted to terrorists or their agents. The Bank will further include a provision in each grant agreement to be entered between the Bank and eligible recipients that each such recipient: (i) will not use the proceeds of the on-granted Contributions for the purpose of any payment to persons or entities, if such payment or import, to the recipient’s knowledge or belief, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations, including under the United Nations Security Council Resolution 1373 and related resolutions; and (ii) will include a corresponding provision in any sub-grant agreements that the eligible recipient enters into with entities to which the recipient makes the grant funding available. The Donors acknowledge that this provision does not create any obligations of the Bank under the anti-terrorist financing and asset control laws, regulations, rules and executive orders of an individual member country that may apply to the Donors, nor will it be deemed a waiver, express or implied, of any of the privileges and immunities of the Bank.
2. **Commingling, Exchange and Investment of the Contributions**

2.1. The Contributions will be accounted for as a single trust fund and will be kept separate and apart from the funds of the Bank. The Contributions may be commingled with other trust fund assets maintained by the Bank.

2.2. The Contributions may be freely exchanged by the Bank into other currencies as may facilitate their disbursement.

2.3. The Bank will invest and reinvest the Contributions pending their disbursement in accordance with the Bank’s policies and procedures for the investment of trust funds administered by the Bank. The Bank will credit all income from such investment to the Trust Fund to be used for the same purposes as the Contributions.

3. **Administrative Cost Recovery**

3.1. In order to assist in the defrayment of the costs of administration and other expenses incurred by the Bank’s central units under this Arrangement, the Bank may deduct and retain for its own account an amount equal to three fourth of one percent (0.75%) of each Contribution. In addition, the costs of the Trust Fund management, administration and supervision by the Bank’s managing unit (including the establishment and operation of a permanent Trust Fund Secretariat) will be charged to the Trust Fund on an actual basis, up to a maximum of – i.e. not to exceed- one and one half percent (1.5%) of the aggregate Contributions. If the Contributions increase beyond what was originally expected at the time of counter-signature of the first administration arrangements, and the administrative costs increase as a result, the Donors acknowledge that an additional administrative fee may be applied to such new contributions.

4. **Grants to Recipients**

4.1. The Bank will, as administrator of the Trust Fund on behalf of the Donors, enter into grant agreements (the “Grant Agreements”) with eligible recipients selected in accordance with the governance terms of Annex 1 (the “Recipients”) consistent with the purposes of this Arrangement and on the terms and conditions set forth in the Grant Agreements. Grant Agreements may be entered into up to the maximum amount of the Contributions that all Donors have decided to make available under the Administration Arrangements between the Bank and the Donors. Upon request by a Donor, the Bank will furnish a copy of the Grant Agreements to the Donors.

4.2. The Bank will be responsible for the supervision of the activities financed under the Grant Agreements (other than those executed by a UN-FPA Signatory). Subject to the consent of the relevant Recipients, representatives of the Donors may be invited by the Bank to participate in Bank supervision missions related to the Trust Fund.

4.3. The Bank will promptly inform the Donors of any significant modification to the terms of any Grant Agreements and of any contractual remedies that are exercised by the Bank under any Grant Agreements. To the extent practicable, the Bank will afford the Donors the opportunity to exchange views before effecting any such modification or
exercising any such remedy. Modifications to the terms of any Grant Agreement or similar documents entered with a UN-FPA Signatory will be governed by the FPA Standard Provisions.

5. Procurement

5.1. For Recipient-executed activities, the Grant Agreements will provide that the Contributions shall be used by the Recipients to finance expenditures for goods and services, as the case may be, in accordance with the Bank’s Guidelines on “Procurement under IBRD Loans and IDA Credits” and the Bank’s Guidelines on the “Selection and Employment of Consultants by World Bank Borrowers,” as in effect at the date of entry into the respective Grant Agreements. Notwithstanding the foregoing, procurement activities for any project implemented by a UN-FPA Signatory shall be governed by the terms of the Grant Agreement entered with such UN-FPA Signatory, in accordance with the FPA Standard Provisions.

5.2. For Bank-executed activities, the employment and supervision of any consultants and the procurement of any goods financed by the Contributions will be the responsibility of the Bank and will be carried out in accordance with its applicable policies and procedures.

6. Accounting and Financial Reporting

6.1. The Bank will maintain separate records and ledger accounts in respect of the Contributions deposited in the Trust Fund account and disbursements made therefrom.

6.2. The Bank will furnish to the Donors current financial information relating to receipts, disbursements and fund balance in United States Dollars of the Trust Fund with respect to the Contributions via the World Bank’s Trust Funds Donor Center secure website. Within six (6) months after all commitments and liabilities under the Trust Fund have been satisfied and the Trust Fund has been closed, the final financial information relating to receipts, disbursements and fund balance in United States Dollars of the Trust Fund with respect to the Contributions will be made available to the Donors via the World Bank’s Trust Funds Donor Center secure website.

6.3. The Bank will provide to the Donors, within six (6) months following the end of each Bank fiscal year, an annual single audit report, comprising (1) a management assertion together with an attestation from the Bank’s external auditors concerning the adequacy of internal control over cash-based financial reporting for all cash-based trust funds as a whole; and (2) a combined financial statement for all cash-based trust funds together with the Bank’s external auditor’s opinion thereon. The cost of the single audit will be borne by the Bank.

6.4. If a Donor wishes to request, on an exceptional basis, a financial statement audit by the Bank’s external auditors of the Trust Fund, the Donor and the Bank will first consult as to whether such an external audit is necessary. The Bank and the Donor will decide on the appropriate scope and terms of reference of such audit. Following the decision on the scope and terms of reference, the Bank will arrange for such external
audit. The costs of any such audit, including the internal costs of the Bank with respect to such audit, will be paid by the requesting Donor.

6.5. The Bank will provide the Donors with copies of all financial statements and auditors’ reports received by the Bank from the Recipients pursuant to the Grant Agreements.

7. Progress Reporting

7.1. The Bank will provide the Donors with a semi-annual report on the progress of activities financed by the Contributions. Within six (6) months of the final disbursement date specified in paragraph 8.2, the Bank will furnish to the Donors a final report on the activities financed by the Trust Fund.

7.2. Any Donor may review or evaluate activities financed by the Trust Fund. The Donor and the Bank will agree on the scope and conduct of such review or evaluation, and the Bank will provide all relevant information within the limits of its policies and procedures. All associated costs will be borne by the Donor. It is understood that any such review or evaluation will not constitute a financial, compliance or other audit of the Trust Fund.

8. Disbursement; Cancellation; Refund

8.1. The Contributions may be used to retroactively finance payments for eligible expenditures in accordance with the Bank’s policies and procedures, including expenditures incurred prior to the date of signature of this Arrangement, but on or after January 28, 2010.

8.2. It is expected that the Contributions will be fully disbursed by the Bank by December 31, 2015. The Bank will only disburse Contributions for the purposes of this Arrangement after such date with the written approval of the Donors.

8.3. Any Donor or the Bank may, upon three (3) months’ prior written notice, cancel all or part of the Donor’s pro rata share, of any remaining balance of the Contributions that is not committed pursuant to any agreements entered into between the Bank and any consultants and/or other third parties for the purposes of this Arrangement prior to the receipt of such notice, including the Grant Agreements.

8.4. Following the final disbursement date specified in paragraph 8.2, the Bank will return any remaining balance of the Contributions to the Donors on a pro rata basis based on the Donors’ paid Contributions. In the event of a cancellation the Bank will promptly return to the Donors, the Donors’ pro rata share of uncommitted Contributions in accordance with paragraph 8.3.

9. Disclosure

The Bank may disclose this Arrangement and information on this Trust Fund in accordance with the Bank’s policy on disclosure of information, in effect at the time of
such disclosure. By entering into this Arrangement, Donors consent to disclosure of this Arrangement and information on this Trust Fund.

10. **FPA Standard Provisions**

    Notwithstanding any provision of this Arrangement to the contrary, the terms and conditions set out in the FPA Standard Provisions will apply to those proceeds of the Contributions to this Trust Fund that are made available to any UN-FPA Signatory by the Bank under a Grant Agreement that so provides.