
CREDIT NUMBER 7348-PK

Financing Agreement

(Khyber Pakhtunkhwa Rural Investment and Institutional Support Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

CREDIT NUMBER 7348-PK

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between ISLAMIC REPUBLIC OF PAKISTAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient a credit, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to two hundred million United States Dollars (USD 200,000,000) (variously, “Credit” and “Financing”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.04. The Payment Dates are February 15 and August 15 in each year.
- 2.05. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.06. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project and the MPA Program. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article V of the General Conditions, Schedule 2 to this Agreement, and the Project Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Secretary, Additional Secretary, Joint Secretary, Deputy Secretary, or Section Officer of the Recipient's Ministry of Economic Affairs.

- 5.02. For purposes of Section 11.01 of the General Conditions:

- (a) the Recipient's address is:

Ministry of Economic Affairs
Government of Pakistan
Islamabad
Pakistan; and

- (b) the Recipient's Electronic Address is:

Facsimile: E-mail:
92-51-910-4016 secretary@ead.gov.pk

5.03. For purposes of Section 11.01 of the General Conditions:

(a) the Association's address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

(b) the Association's Electronic Address is:

Facsimile:

E-mail:

1-202-477-6391

CMUPakistan@worldbank.org

AGREED as of the Signature Date.

ISLAMIC REPUBLIC OF PAKISTAN

By



Authorized Representative

Name: Kazim Niaz

Title: Secretary Ministry of Economic Affairs

Date: 24-Jul-2023

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Najy Benhassine

Title: Country Director

Date: 10-Jul-2023

SCHEDULE 1

Project Description

The objectives of the Project are to strengthen state capabilities for delivery of basic services and climate resilient infrastructure in the Project Areas, including for the poor and vulnerable.

The Project constitutes a phase of the MPA Program, and consists of the following parts:

Part A: Multisectoral Investments and Improved Service Delivery

1. *Multisectoral Infrastructure Investments in the Merged Areas.* Provision of multisectoral infrastructure investments in water supply and sanitation, rural roads, and improved agricultural productivity, processing of agricultural products, kitchen gardening, and livelihoods promotion.
2. *Integrated Service Delivery Facilities.* Establishment, refurbishment, or expansion of service delivery centers and facilities at the district and sub-divisional levels.
3. *Design and Supervision Consultant Services.* Carrying out of feasibility studies, surveys, detailed designs and/or design verifications, environmental and social assessments, preparation of site-specific environment and social plans, and construction supervision and support services pertaining to investments under Parts A.1, A.2 and B.3 of the Project.

Part B: Institutional Development of Merged Areas

1. *Institutional Strengthening and Capacity Support to Village Councils.* Institutional strengthening and capacity building of village councils and communities for participatory planning, budgeting, monitoring, strengthening social accountability systems for improved quality of spending of village councils.
2. *Conditional Grants to Village Councils.* Provision of Conditional Grants to village councils to finance local infrastructure priorities in line with community preferences and women's priorities.
3. *Public Administrative Service Facilities.* Establishment or refurbishment of local integrated service delivery centers' facilities at the *tehsil* level.

Part C: Emergency Flood Response

Reconstruction and rehabilitation of flood protection infrastructure.

Part D: Project Management, M&E, and Technical Assistance

Provision of support for Project implementation, coordination, monitoring, technical assistance and training, including, *inter alia*:

1. establishment of a Project Coordination and Management Unit (“PCMU”);
2. monitoring and evaluation (“M&E”), including the development of a digital M&E system and real time updates via a dashboard system; and
3. technical assistance, training, and strategic studies.

Part E: Contingent Emergency Response

Provision of immediate response to an Eligible Crisis or Emergency, as needed.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. On-lending Arrangements.

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity under the same terms and conditions as shall have been received from the Association and in accordance with the provision of this Agreement and the Recipient's on-lending policies and budgetary procedures.
2. Notwithstanding paragraph (1) above, in the event that any of the provisions of this Agreement, including the instructions that the Association shall have specified by notice to the Recipient pursuant to this Schedule, are inconsistent with the budgetary procedures of the Recipient, the provisions of this Agreement shall prevail.
3. The Recipient shall exercise its rights under the on-lending arrangements referred to in Section I.A.1 of this Schedule 2 in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive its rights under such arrangements.

B. Environmental and Social Standards.

1. The Recipient shall, and shall cause the Project Implementing Entity to, ensure that the Project is carried out in accordance with the Environmental and Social Standards, in a manner acceptable to the Association.
2. Without limitation upon paragraph 1 above, the Recipient shall, and shall cause the Project Implementing Entity to, ensure that the Project is implemented in accordance with the Environmental and Social Commitment Plan ("ESCP"), in a manner acceptable to the Association. To this end, the Recipient shall, and shall cause the Project Implementing Entity to, ensure that:
 - (a) the measures and actions specified in the ESCP are implemented with due diligence and efficiency, as provided in the ESCP;
 - (b) sufficient funds are available to cover the costs of implementing the ESCP;
 - (c) policies and procedures are maintained, and qualified and experienced staff in adequate numbers are retained to implement the ESCP, as provided in the ESCP; and

- (d) the ESCP, or any provision thereof, is not amended, repealed, suspended or waived, except as the Association shall otherwise agree in writing, as specified in the ESCP, and ensure that the revised ESCP is disclosed promptly thereafter.
- 3. In case of any inconsistencies between the ESCP and the provisions of this Agreement, the provisions of this Agreement shall prevail.
- 4. The Recipient shall, and shall cause the Project Implementing Entity to, ensure that:
 - (a) all measures necessary are taken to collect, compile, and furnish to the Association through regular reports, with the frequency specified in the ESCP, and promptly in a separate report or reports, if so requested by the Association, information on the status of compliance with the ESCP and the environmental and social instruments referred to therein, all such reports in form and substance acceptable to the Association, setting out, inter alia: (i) the status of implementation of the ESCP; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the ESCP; and (iii) corrective and preventive measures taken or required to be taken to address such conditions; and
 - (b) the Association is promptly notified of any incident or accident related to or having an impact on the Project which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers, in accordance with the ESCP, the environmental and social instruments referenced therein and the Environmental and Social Standards.
- 5. The Recipient shall, and shall cause the Project Implementing Entity to, establish, publicize, maintain and operate an accessible grievance mechanism, to receive and facilitate resolution of concerns and grievances of Project-affected people, and take all measures necessary and appropriate to resolve, or facilitate the resolution of, such concerns and grievances, in a manner acceptable to the Association.
- 6. The Recipient shall, and shall cause the Project Implementing Entity to, ensure that all bidding documents and contracts for civil works under the Project include the obligation of contractors, subcontractors, and supervising entities to: (a) comply with the relevant aspects of ESCP and the environmental and social instruments referred to therein; and (b) adopt and enforce codes of conduct that should be provided to and signed by all workers, detailing measures to address environmental, social, health and safety risks, and the risks of sexual exploitation and abuse, sexual harassment and violence against children, all as applicable to such civil works commissioned or carried out pursuant to said contracts.

C. Contingent Emergency Response

1. In order to ensure the proper implementation of contingent emergency response activities under Part E of the Project (“Contingent Emergency Response Part”), the Recipient shall ensure that:
 - (a) a manual (“CERC Manual”) is prepared and adopted in form and substance acceptable to the Association, which shall set forth detailed implementation arrangements for the Contingent Emergency Response Part, including: (i) any structures or institutional arrangements for coordinating and implementing the Contingent Emergency Response Part; (ii) specific activities which may be included in the Contingent Emergency Response Part, Eligible Expenditures required therefor (“Emergency Expenditures”), and any procedures for such inclusion; (iii) financial management arrangements for the Contingent Emergency Response Part; (iv) procurement methods and procedures for the Contingent Emergency Response Part; (v) documentation required for withdrawals of Financing amounts to finance Emergency Expenditures; (vi) a description of the environmental and social assessment and management arrangements for the Contingent Emergency Response Part; and (vii) a template Emergency Action Plan;
 - (b) the Emergency Action Plan is prepared and adopted in form and substance acceptable to the Association;
 - (c) the Emergency Response Part is carried out in accordance with the CERC Manual and the Emergency Action Plan; provided, however, that in the event of any inconsistency between the provisions of the CERC Manual or the Emergency Action Plan and this Agreement, the provisions of this Agreement shall prevail; and
 - (d) neither the CERC Manual or the Emergency Action Plan is amended, suspended, abrogated, repealed or waived without the prior written approval by the Association.
2. The Recipient shall ensure that the structures and arrangements referred to in the CERC Manual are maintained throughout the implementation of the Contingent Emergency Response Part, with adequate staff and resources satisfactory to the Association.
3. The Recipient shall ensure that:
 - (a) the environmental and social instruments required for the Contingent Emergency Response Part are prepared, disclosed and adopted in

accordance with the CERC Manual and the ESCP, and in form and substance acceptable to the Association; and

(b) the Contingent Emergency Response Part is carried out in accordance with the environmental and social instruments in a manner acceptable to the Association.

4. Activities under the Contingent Emergency Response Part shall be undertaken only after an Eligible Crisis or Emergency has occurred.

Section II. Project Monitoring, Reporting and Evaluation

The Recipient shall furnish to the Association each Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.

Section III. Withdrawal of the Proceeds of the Financing

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Credit Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, consulting services, Incremental Operating Costs, and Training for the Project	175,000,000	100%
(2) Conditional Grants for Part B.2 of the Project	25,000,000	100%
(3) Emergency Expenditures	0	100%
TOTAL AMOUNT	200,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed ten million United States Dollars (USD 10,000,000) may be made for payments made prior to this date but on or after October 1, 2022, for Eligible Expenditures under Category (1); or
 - (b) for Emergency Expenditures under Category (3), unless and until all of the following conditions have been met in respect of said expenditures:
 - (i) (A) the Recipient has determined that an Eligible Crisis or Emergency has occurred, and has furnished to the Association a request to withdraw Financing amounts under Category (8); and (B) the Association has agreed with such determination, accepted said request and notified the Recipient thereof: and
 - (ii) the Recipient has adopted the CERC Manual and Emergency Action Plan, in form and substance acceptable to the Association.
2. The Closing Date is June 30, 2029.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 15 and August 15:	
commencing August 15, 2029 to and including August 15, 2034	8.33334%
on February 15, 2035	8.33326%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.05 (b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Agriculture Department” means the Project Implementing Entity’s department responsible for agriculture, or any successor thereto.
2. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, 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.
3. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
4. “CERC Manual” means the manual referred to in Section I.C of Schedule 2 to this Agreement, as such manual maybe updated from time to time with the agreement of the Association.
5. “Communication and Works Department” means the Project Implementing Entity’s department responsible for communication and works, or any successor thereto.
6. “Conditional Grants” means the grants to be provided by the Project Implementing Entity to the village councils under Part B.2 of the Project for the purposes of financing Sub-projects, in accordance with Section I.B of the Schedule to the Project Agreement.
7. “Conditional Grant Agreement” means the agreement to be entered into between the Project Implementing Entity and a village council for the purpose of providing the Conditional Grant, in accordance with Section I.B.2 of the Schedule to the Project Agreement.
8. “Contingent Emergency Response Part” means any activity or activities to be carried out under Part E of the Project to respond to an Eligible Crisis or Emergency.
9. “Eligible Crisis or Emergency” means an event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact to the Recipient, associated with a natural or man-made crisis or disaster.
10. “Emergency Action Plan” means the plan referred to in Section I.C of Schedule 2 to this Agreement, detailing the activities, budget, implementation plan, and

monitoring and evaluation arrangements, to respond to the Eligible Crisis or Emergency.

11. “Emergency Expenditures” means any of the eligible expenditures set forth in the CERC Manual referred to in Section I.C of Schedule 2 to this Agreement and required for the Contingent Emergency Response Part.
12. “Environmental and Social Commitment Plan” or “ESCP” means the environmental and social commitment plan for the Project, dated May 15, 2023, as the same may be amended from time to time in accordance with the provisions thereof, which sets out the material measures and actions that the Recipient shall carry out or cause to be carried out to address the potential environmental and social risks and impacts of the Project, including the timeframes of the actions and measures, institutional, staffing, training, monitoring and reporting arrangements, and any environmental and social instruments to be prepared thereunder.
13. “Environmental and Social Standards” or “ESSs” means, collectively: (i) “Environmental and Social Standard 1: Assessment and Management of Environmental and Social Risks and Impacts”; (ii) “Environmental and Social Standard 2: Labor and Working Conditions”; (iii) “Environmental and Social Standard 3: Resource Efficiency and Pollution Prevention and Management”; (iv) “Environmental and Social Standard 4: Community Health and Safety”; (v) “Environmental and Social Standard 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement”; (vi) “Environmental and Social Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources”; (vii) “Environmental and Social Standard 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities”; (viii) “Environmental and Social Standard 8: Cultural Heritage”; (ix) “Environmental and Social Standard 9: Financial Intermediaries”; (x) “Environmental and Social Standard 10: Stakeholder Engagement and Information Disclosure”; effective on October 1, 2018, as published by the Association.
14. “Facilitating Partner” means a firm or a non-governmental organization to be engaged by the Project Implementing Entity in accordance with Section I.A.4 of the Schedule to the Project Agreement.
15. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Investment Project Financing”, dated December 14, 2018 (revised on August 1, 2020, April 1, 2021, and January 1, 2022).
16. “Incremental Operating Costs” means the reasonable costs of the incremental expenditures required for the Project, including consumable materials and supplies; office rental costs; utilities fees; insurance; communications; advertising and newspaper subscriptions; printing and stationery costs; vehicle and/or office equipment operation and maintenance; charges for opening and operating bank

accounts required for the Project, travel, lodging and per diems for Project staff, but does not include salaries or salary supplements of the Recipient's or the Project Implementing Entity's civil servants, except for the salaries and/or salary supplements to the Recipient's or the Project Implementing Entity's civil servants formally deputed to the Project to assist in carrying out of the Project activities are entitled to in accordance with the applicable government policies during the period of their deputation.

17. "Irrigation Department" means the Project Implementing Entity's department responsible for irrigation, or any successor thereto.
18. "Local Government Department" means the Project Implementing Entity's department responsible for local governments, or any successor thereto.
19. "Merged Areas" means the Recipient's former Federally Administered Tribal Areas, which were integrated into the Province of Khyber Pakhtunkhwa through the Recipient's 25th Constitutional Amendment in 2018.
20. "MPA Program" means the multiphase programmatic approach program designed to increase access to resilient and reliable basic services for households living in the newly merged areas of Khyber Pakhtunkhwa.
21. "Planning and Development Department" means the Project Implementing Entity's department responsible for planning and development, or any successor thereto.
22. "Procurement Regulations" means, for purposes of paragraph 85 of the Appendix to the General Conditions, the "World Bank Procurement Regulations for IPF Borrowers", dated November 2020.
23. "Project Areas" means areas covering the Project Implementing Entity's newly merged districts and frontier regions as notified by the Project Implementing Entity.
24. "Project Implementing Entity" means the Recipient's Province of Khyber Pakhtunkhwa.
25. "Project Coordination Management Unit" means the unit to be established by the Project Implementing Entity in accordance with Section I.A.2 of the Schedule to the Project Agreement.
26. "Public Health Engineering Department" means the Project Implementing Entity's department responsible for public health engineering, or any successor thereto.

27. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
28. “Sub-project” means the local priority activity to be financed out of a Conditional Grant and carried out by a village council based on community preferences, as identified in the relevant village implementation plan.
29. “Training” means the costs of training activities under the Project, including seminars, workshops, and study tours, along with travel and subsistence allowances 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, all based on annual work plans and budgets approved by the Association.

Section II. Modifications to the General Conditions

1. Section 3.03 (Service Charge) and Section 3.04 (Interest Charge) are deleted in their entirety and the remaining Sections in Article III are renumbered accordingly, and all references to the Sections of Article III in any provision of the General Conditions are understood to be to such renumbered Sections.
2. Paragraph 66 (Interest Charge) in the Appendix is modified to read as follows:

“66. “Interest Charge” means the interest charge for the purpose of Section 3.07.
3. Paragraph 100 (Service Charge) in the Appendix is deleted in its entirety and the subsequent paragraphs are renumbered accordingly, and any reference to “Service Charge” or “Service Charges” in any provision of the General Conditions is deleted.