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CREDIT NUMBER 4559-PK

Financing Agreement

(Poverty Reduction & Economic Support Operation)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 26, 2009

FINANCING AGREEMENT

AGREEMENT dated March 26, 2009, entered into between ISLAMIC REPUBLIC OF PAKISTAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral 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, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to three hundred twenty one million three hundred thousand Special Drawing Rights (SDR 321,300,000) (variously, “Credit” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is the Dollar.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — TERMINATION

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Secretary of the Recipient's Economic Affairs Division of the Ministry of Economic Affairs and Statistics, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer in that Division.

5.02. The Recipient's Address is:

The Secretary to the Government of Pakistan
Economic Affairs Division
Ministry of Economic Affairs and Statistics
Islamabad, Pakistan

Facsimile

92-51-9210734

5.03. The Association's Address is:

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

Cable address:

Telex:

Facsimile:

INDEVAS

248423(MCI)

1-202-477-6391

Washington, D.C.

AGREED at District of Columbia, United States of America, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By

/s/ Abdul Wajad Rana
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Yusupha B. Crookes
Authorized Representative

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions Taken Under the Program

The actions taken by the Recipient under the Program include the following:

1. The Recipient has: (a) notified the government's approval for the restructuring of the Federal Board of Revenue into an integrated federal tax administration agency organized according to functions; and (b) implemented related organizational changes in top management in the Federal Board of Revenue.
2. The Recipient, through MOF's D.O. No. F.3(58) EF-C-II/2008 dated January 21, 2009, has approved the policy action plan to amend the legislation of domestic indirect taxes, to ensure a comprehensive taxation of goods and services in the form of a value added tax.
3. The Recipient has: (a) through MOP&NR's letter No. PL-3(457)/2009 introduced automatic monthly adjustments of consumer fuel prices to reflect international fuel prices; and (b) through MOP&NR's notification S.R.O. (1)/2008 of December 31, 2008, specified a revised minimum level of petroleum development levy.
4. The Recipient: (a) through Finance Act No. 1 of 2008, dated June 27, 2008, has authorized the National Electric Power Regulatory Authority to make monthly determination of the fuel adjustment surcharges; and (b) has notified to the public the new electricity tariffs within 15 days from tariff determination or re-determination.
5. The Recipient has adopted and begun implementation of a plan to eliminate power sector subsidies by June 30, 2009, consistent with the Recipient's budget for fiscal year 2008/9.
6. The Recipient, through a letter from MOF, has communicated the consolidation and rationalization of the Public Sector Development Program portfolio by terminating non-viable projects and reducing the throw-forward by at least twenty percent (20%), consistent with the Recipient's revised development priorities.
7. Through MOF's letter No. F.2(4)DM/2003-79 dated January 13, 2009, the MOF has: (a) notified the State Bank of Pakistan, of the amendment of the PIB Rules, defining the MOF and the State Bank of Pakistan's roles and decision-making rights in the issuance of Pakistan Investment Bonds; and (b) issued the Instructions to the State Bank of Pakistan.

8. Through S.R.O. (1)/2009 of January 22, 2009, issued by the Competition Commission, and MOF's notification S.R.O. (I)/2009 of the same date, the Recipient has adopted CC Rules providing for: (a) the terms of reference of the members of the Competition Commission; and (b) the Competition Commission's automatic sources of financing.
9. The Recipient, through State Bank of Pakistan's BPRD Circular No.1, dated January 17, 2009, has amended the Prudential Regulations to introduce a phased reduction in the Group Credit Exposure Limit from fifty percent (50%) to twenty five percent (25%) by the end of calendar year 2013.
10. Through letter No. Dy. 149-MD/BISP/09, dated January 22, 2009, from the Managing Director of the Benazir Income Support Program, the Recipient has: (a) adopted a scorecard as the new instrument for identifying and targeting poor families for coverage under the Benazir Income Support Program; (b) adopted a plan for implementation for the new instrument; and (c) begun implementation of said plan on January 31, 2009.

Section II. Availability of Financing Proceeds

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Tranche	321,300,000
TOTAL AMOUNT	321,300,000

- C. Deposits of Financing Amounts.** Except as the Association may otherwise agree:
 1. the withdrawal from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and

2. the Recipient shall ensure that upon deposit of the amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

D. Excluded Expenditures. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

E. Closing Date. The Closing Date is March 31, 2010.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each March 15 and September 15:	
commencing September 15, 2019 to and including March 15, 2029	1.25%
commencing September 15, 2029 to and including March 15, 2044	2.5%

* 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 3.03(b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Benazir Income Support Program” means the social safety net program established through a Cabinet Division’s Notification No. F-1/5/2008-Admn.II, dated September 27, 2008.
2. “CC Rules” means the rules adopted by the Recipient pursuant to the Competition Ordinance 2007 (Ordinance No. LII, 2007) governing, *inter alia*, the terms of office of the members of the Competition Commission and the funding of the CCP Fund, as provided in Sections 17 and 20 of the said Ordinance.
3. “CCP Fund” means the fund established pursuant to Section 20 of the Competition Ordinance 2007 (Ordinance N. LII, 2007) and utilized by the Competition Commission as a source of funding to meet charges in connection with its normal functioning.
4. “Competition Commission” means the Recipient’s administratively and functionally independent commission established pursuant to Section 12 of the Competition Ordinance 2007 (Ordinance No. LII, 2007).
5. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
- (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
- (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.

6. “Equity” means the capital (including paid-up capital, general reserves, balance in share premium account, reserve for issue of bonus shares and retained earnings/accumulated losses as disclosed in latest annual audited financial statements, etc.) of the bank or development financial institution. In case of branches of foreign banks acting Pakistan, “Equity” means the capital maintained free of losses and provision, under Section 13 of the Recipient’s Banking Companies Ordinance of 1962 (Act LVII of 1962).
7. “Exposure” means all kinds of financial facilities whether fund based and/or non-fund based as defined in the Prudential Regulations.
8. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.
9. “Group” means two or more persons, whether natural or juridical, if one of them or his/her dependent family members or its subsidiaries, have control or hold substantial ownership interest over the other(s), as defined in the Prudential Regulations.
10. “Group Credit Exposure Limit” means the total outstanding Exposure (fund based and non-fund based) by a bank or development financial institution to a Group as a percentage of such bank or development financial institution’s Equity.
11. “Instructions” means the set of instructions issued by MOF in relation to the Rules for purpose of regulating the State Bank of Pakistan intervention in the issuance, sale, purchase and other transactions related to Pakistan Investment Bonds.
12. “MOF” means the Recipient’s Ministry of Finance.
13. “MOP&NR” means the Recipient’s Ministry of Petroleum & Natural Resources.
14. “National Electric Power Regulatory Authority” means the Recipient’s independent regulatory agency established and existing under the NEPRA Act (*Act XL of 1997 for the Regulation Generation, Transmission and Distribution of Electric Power*) for purposes of regulating the Recipient’s electric power sector; and/or any successor thereto.
15. “Pakistan Investment Bonds” means certain bonds issued from time to time by, and in the name of, the Recipient in exercise of the powers conferred under the Public Debt Act, 1944 (Act XVIII of 1944).

16. “PIB Rules” means the Pakistan Investment Bonds Rules 2000 issued by MOF through S.R.O. 735(1)/2000 pursuant to Section 28, of the Public Debt Act 1944 (Act XVIII of 1944).
17. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the development policy letter dated February 3, 2009, from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
18. “Prudential Regulations” means the set of prudential regulations for corporate/commercial banking issued by the Banking Policy and Regulation Department of the State Bank of Pakistan as amended from time to time.
19. “Public Sector Development Program” means the Recipient development program approved by the Parliament as part of Finance Act 2008/09.
20. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six (6) months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.