

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4594-PK

Financing Agreement

(Social Safety Net Development Policy Financing)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 15, 2009

FINANCING AGREEMENT

AGREEMENT dated September 15, 2009, entered into between the 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.A 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 one hundred thirty three million eight hundred thousand Special Drawing Rights (SDR 133,800,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 June 15 and December 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Dollars.

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 and the actions specified in Section I of Schedule 1 to this Agreement;
 - (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 — EFFECTIVENESS; 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, 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 of the Government of Pakistan
Economic Affairs Division
Ministry of Economic Affairs and Statistics
Islamabad, Pakistan

Phone:

Facsimile:

92-51-9203815

92-51-9218976

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 Washington, D.C.	248423(MCI)	1-202-477-6391

AGREED at Islamabad, Islamic Republic of Pakistan, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By

/s/ Farrakh Qayyum
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Said N. Al Habsy
Authorized Representative

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

- A. Actions Taken Under the Program.** The actions taken by the Recipient under the Program include the following:
1. The Recipient, through BISP, has established the institutional arrangements for the implementation of a poverty scorecard targeting mechanism for the safety net programs implemented, or to be implemented, by BISP, through the contracting of separate agencies for the scorecard data collection and the determination of eligibility of beneficiaries.
 2. Following the adoption of the poverty scorecard as targeting mechanism for safety net programs carried out by BISP, the BISP Board has taken a policy decision to: (a) revalidate the eligibility of BISP enrollees selected by parliamentarians, utilizing the poverty scorecard targeting mechanism; and (b) remove existing beneficiaries who either do not complete the scorecard targeting form or do not qualify as eligible under the scorecard targeting mechanism.
 3. Pursuant to the BISP Ordinance (2009), the Recipient has established the BISP as an autonomous statutory safety net authority responsible for the implementation of safety net programs, with: (i) financial and administrative autonomy; and (ii) differentiation of responsibilities, powers and functions among the BISP Board, the Chairperson and the Secretary for the oversight and management of the safety net program.
 4. The BISP Board has approved/adopted the administrative policy guidelines for the implementation of the safety net program.
 5. The Finance Division (MOF) has confirmed the Federal Government's decision by the Prime Minister, to remove the overlapping mandates of BISP and PBM in delivering unconditional cash transfer programs.
 6. The Recipient, through PBM, has expanded the coverage of the Child Support Program utilizing a poverty scorecard targeting mechanism for the selection of beneficiaries.
 7. The BISP has entered into an agreement with an independent payment agency setting out the policy guidelines and procedures for timely delivery of payments to BISP beneficiaries

B. Actions to be Taken Under the Program. The actions to be taken by the Recipient under the Program include the following:

1. The BISP shall have collected the poverty scorecard information in at least eight (8) districts of the Recipient, and transmitted such information to the Data Processing Agency.
2. The BISP Board shall have: (i) adopted a transition policy including, *inter alia*, grievance mechanisms, the cut-off score for beneficiaries' eligibility, a plan for national roll-out of the scorecard targeting mechanism, and communication strategy; and (ii) implemented the policy decision in at least five (5) districts of the Recipient to remove BISP enrollees nominated by parliamentarians who either do not complete the scorecard targeting form or do not qualify as eligible under the poverty scorecard-based system.

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 two tranches. 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)
First Tranche	100,300,000
Second Tranche	33,500,000
TOTAL AMOUNT	133,800,000

C. Tranche Release Conditions

1. No withdrawal shall be made of the First Tranche unless the Association is satisfied, as of the date of the request for such withdrawal:
 - (i) with the progress achieved by the Recipient in carrying out the Program; and
 - (ii) that the macroeconomic policy framework of the Recipient is appropriate.

2. No withdrawal shall be made of the Second Tranche unless the Association is satisfied, after an exchange of views as described in Sections 3.01(a) and (b) of this Agreement based on evidence satisfactory to the Association:
 - (i) with the progress achieved by the Recipient in carrying out the Program;
 - (ii) that the macroeconomic policy framework of the Recipient is appropriate; and
 - (iii) that the actions described in Part B of Section I of this Schedule have been taken.

If, after this exchange of views, the Association is not so satisfied, it may give notice to the Recipient to that effect and, if within ninety (90) days after the notice, the Recipient has not taken steps satisfactory to the Association with respect to paragraphs 1, 2 and 3 above, then the Association may, by notice to the Recipient, cancel all or any part of the Unwithdrawn Financing Balance.

D. Deposits of Financing Amounts. Except as the Association may otherwise agree:

1. all withdrawals 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 each deposit of an 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.

E. 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.

F. 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 June 15 and December 15:	
commencing December 15, 2019, to and including June 15, 2029	1.25%
commencing December 15, 2029, to and including June 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. “BISP” means the Benazir Income Support Programme, an autonomous statutory safety net authority responsible for the implementation of safety net programs, established pursuant to the BISP Ordinance (2009).
2. “BISP Board” means the board of the BISP, established under the Cabinet Division via Notification No. F.1/5/2008-Adm-II dated September 27, 2008, and Chapter III Section 5 of the BISP Ordinance (2009).
3. “BISP Ordinance (2009)” means the Recipient’s Ordinance IX of 2009 issued via Notification No. 2(1)/2009-Pub, dated April 30, 2009, which was re-promulgated by the Recipient on August 31, 2009, as Ordinance XIX of 2009.
4. “Chairperson” means chairperson of the BISP Board, to be appointed pursuant to Chapter III, Section 5 of the BISP Ordinance (2009).
5. “Child Support Program” means the pilot (targeted) conditional cash transfer program providing top-up financial support to poor households enrolled with PBM, on the basis of their children’s (age 5 to 12 year-old) attendance to primary schools, administered by PBM.
6. “Data Processing Agency” means the agency contracted by BISP to be responsible for the processing of scorecard information collected by third party organizations and the determination of eligibility of BISP enrollees.
7. “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.

8. “Finance Division (MOF)” means the Finance Division of the Recipient’s Ministry of Finance.
9. “First Tranche” means the amount of the Financing allocated to the category entitled “First Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement, and available for immediate disbursement upon the effectiveness of this Agreement, subject to the conditions provided herein.
10. “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.
11. “PBM” means the Pakistan Bait-ul-Mal, a social safety net program established pursuant to Act I of 1992, as amended through Ordinance XC of 2002.
12. “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 letter dated May 2, 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.
13. “Second Tranche” means the amount of the Financing allocated to the category entitled “Second Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
14. “Secretary” means the Secretary of the BISP Board and Principal Accounting Officer of the BISP, to be appointed pursuant to Chapter III, Section 5 of the BISP Ordinance (2009).

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. Section 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

“Section 2.05. *Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

4. 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.
5. 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.
6. 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.”

7. 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 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.”

8. 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”.

(a) The term “Program Preparation Advance” (renamed as such pursuant to subparagraph 8(c) above) is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.05.”