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**CREDIT NUMBER 4301 A-PAK  
CREDIT NUMBER 4302 B-PAK**

# **Financing Agreement**

**(Second Poverty Reduction Support Credit)**

**between**

**ISLAMIC REPUBLIC OF PAKISTAN**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated May 22, 2007**

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**CONFORMED COPY  
CREDIT NUMBER 4301 A-PAK  
CREDIT NUMBER 4302 B-PAK**

**FINANCING AGREEMENT**

AGREEMENT dated May 22, 2007, entered into between ISLAMIC REPUBLIC OF PAKISTAN (the "Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION (the "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 the Financing 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 two portions in the following amounts:
  - (a) an amount equivalent to one hundred eight million Special Drawing Rights (SDR 108,000,000) ("Portion A of the Credit"); and
  - (b) an amount equivalent to one hundred twenty five million two hundred thousand Special Drawing Rights (SDR 125,200,000) ("Portion B of the Credit")

(Portion A of the Credit and Portion B of the Credit collectively referred to as the "Credit").
- 2.02. The Recipient may withdraw the proceeds of the Credit 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 Recipient shall pay the Association interest on the amount of Portion A of the Credit withdrawn and outstanding from time to time at a rate equal to four percent (4%) per annum. Such interest shall accrue from the respective dates on which amounts of Portion A of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Such interest shall be computed on the basis of a 360-day year of twelve 30-day months.
- 2.06. The Payment Dates are March 15 and September 15 in each year.
- 2.07. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.08. The Payment Currency is 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 exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which 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**

- 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, Additional Secretary, Joint Secretary, or Deputy Secretary to the Economic Affairs Division, Ministry of Economic Affairs and Statistics.

- 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

Telephone	Facsimile
92-51 9210629	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 Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

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

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Abdul Wajid Rana  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Yusupha B. Crookes  
Authorized Representative

## SCHEDULE 1

### Program Actions; Availability of Credit Proceeds

#### Section I. Actions under the Program

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

1. In order to improve the efficiency of direct tax collections, the Recipient has established a large tax payers unit in Lahore and medium taxpayer units in Karachi, Peshawar and Rawalpindi.
2. The Recipient has announced and implemented tariffs for Unbundled WAPDA Distribution Companies.
3. The Recipient has brought to a point of sale the following companies: (a) National Refinery Limited; (b) Karachi Electric Supply Corporation; and (c) Pakistan Telecommunications Corporation Limited.
4. The Recipient has enacted legislation amending existing labor legislation to improve labor market flexibility, reduce compliance costs for businesses and increase female labor force participation.
5. The Recipient has: (i) adopted and implemented a gas pricing framework which provides for the periodical adjustments of gas wellhead and consumer prices; and (ii) notified through the official gazette a reduction of the household sector first lifeline slab from 100 m<sup>3</sup> to 50 m<sup>3</sup>.
6. The Recipient has included its Ministries of Education, Food, Agriculture and Livestock, and Women Development, in its medium term budgetary framework (MBTF) for the Fiscal Year 2006/2007 budget.
7. In order to enhance accountability and transparency in accounting and auditing, the Recipient has: (a) developed and adopted a cash flow statement in a format consistent with IPSAS 2; and (b) established an electronically integrated link between MoF's budget module and CGA's payments processing and accounting module.
8. In order to improve access to, and the quality of, education services, the Recipient's consolidated education expenditures for Fiscal Year 2005/2006 were consistent with the nominal targets set forth in the PRSP.
9. In order to improve the quality of teaching in primary schools, the Recipient has raised the entry qualifications for primary school teachers at the federal level to Bachelor of Arts or Bachelor of Sciences degree level.

10. The Recipient has designed and launched a pilot conditional cash transfer/voucher scheme to increase school attendance in areas of low school enrollment.
11. In order to improve health monitoring, the Recipient has approved the National Action Plan for Integrated Disease Surveillance.
12. The Recipient has designed and launched a pilot conditional cash transfer/voucher scheme to increase TB (tuberculosis) daily observation therapy sessions (DOTS) coverage.
13. The Recipient has: (i) made budgetary allocations for the Food Support Program in Fiscal Year 2006/2007 in the amount of four billion three hundred and eighty million Pakistani rupees (Rs. 4,380,000,000); and (ii) designed and launched a pilot conditional cash transfer scheme to for chronically poor households (the Child Support Program) in a total of five districts, one each, in Punjab, Sindh, NWFP, Balochistan and AJK.

**Section II. Availability of Credit Proceeds**

- A. **General.** The Recipient may withdraw the proceeds of the Credit 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 Credit Amounts.** The total amount of the Credit 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:

<b>Allocation</b>	<b>Amount of Portion A of the Credit Allocated (Expressed in SDR)</b>	<b>Amount of Portion B of the Credit Allocated (Expressed in SDR)</b>
Single Tranche	108,000,000	125,200,000
TOTAL AMOUNT	108,000,000	125,200,000

- C. **Deposits of Credit 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.
- D. **Excluded Expenditures.** The Recipient undertakes that the proceeds of the Credit shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Credit 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, 2008.

**SCHEDULE 2**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of Portion A of the Credit Repayable (Expressed as a percentage)*</b>	<b>Principal Amount of Portion B of the Credit Repayable (Expressed as a percentage)*</b>
On each March 15 and September 15:		
commencing September 15, 2017 to and including March 15, 2027	1.25%	1.25%
commencing September 15 2027 to and including March 15, 2042	2.50%	2.50%

\*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. "AJK" means the territory of Azad Jammu and Kashmir.
2. "Balochistan" means the Province of Balochistan.
3. "CGA" means the Recipient's office of the Controller General of Accounts.
4. "Deposit Accounts" means both the Foreign Currency Deposit Account and the Local Currency Deposit Account (as hereinafter defined).
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 Financing, 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

<b>Group</b>	<b>Sub-group</b>	<b>Description of Item</b>
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) under a contract 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 Credit proceeds during the procurement or execution of such contract, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation.
6. "Fiscal Year" or "FY" means the Recipient's fiscal year beginning on July 1 of a calendar year and ending on June 30 of the next following calendar year.
  7. "Food Support Program" means a social safety net program launched in August 2000 by the Recipient, designed to supplement the weak purchasing power of the poorest of the poor segment of society in Pakistan.

8. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005, with the modifications set forth in Section II of this Appendix.
9. "IPSAS 2" means the International Public Sector Accounting Standard issued by the International Federation of Accountants (IFAC).
10. "Karachi" means a city located within the Province of Sindh.
11. "Karachi Electric Supply Corporation" means the electric utility established and operating as a public limited company under the laws of Pakistan, registration number 376/19130907, dated September 13, 1913, for the generation, transmission and distribution of electric power in Karachi.
12. "MoF" means the Recipient's Ministry of Finance.
13. "National Action Plan for Integrated Disease Surveillance" means the Recipient's plan dated May 4, 2006, that sets out the actions taken or to be taken to strengthen its public health surveillance system.
14. "National Refinery Limited" means the oil utility established and operating as a public limited company under the laws of Pakistan, registration number 1463/19630807, dated August 19, 1963, for the petroleum refining and the productions of petrochemical derivatives.
15. "NWFP" means the North West Frontier Province.
16. "Pakistan Telecommunications Corporation Limited" means the telecommunication utility established and operating as a public limited company under the laws of Pakistan, registration number I-01886/19951201, dated December 31, 1995, for the provision of telecommunication services throughout the country.
17. "Peshawar" means a city located within the Recipient's North West Frontier Province.
18. "Portion A of the Credit" means the portion of the Credit specified in Section 2.01(a) of this Agreement.
19. "Portion B of the Credit" means the portion of the Credit specified in Section 2.01(b) of this Agreement.
20. "PRSP" means the Recipients 2003 Poverty Reduction Strategy Paper.

21. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty as set forth or referred to in the letter dated April 4, 2007, 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.
22. “Punjab” means the Province of Punjab.
23. “Rawalpindi” means a city located within the Recipient’s province of Punjab.
24. “Sindh” means the Province of Sindh, a political subdivision of the Recipient.
25. “Unbundled WAPDA Distribution Companies” means, collectively:  
(i) Faisalabad Electric Supply Company (FESCO), registration number L-09460/19980302; (ii) Gujranwala Electric Power Company (GEPCO), registration number L-09498/19980402; (iii) Hyderabad Electric Supply Company (HESCO), registration number L-09496/19980402; (iv) Islamabad Electric Supply Company (IESCO), registration number L-09499/19980402; (v) Lahore Electric Supply Company (LESCO), registration number L-09415/19980202; Multan Electric Power Company (MEPCO), registration number L-09522/19980502; Quetta Electric Supply Company (QESCO), registration number L-09520/19980502; and Peshawar Electric Supply Company (PESCO), registration number L-09497/19980402, all of them electricity utilities established and operating as public limited companies under the laws of Pakistan.

## **Section II. Modifications to the General Conditions**

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 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 Credit 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 Credit.

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 Credit 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 definition of “Financing Payment” is modified to read as follows:

“‘Financing Payment’ means any amount payable by the Recipient to the Association pursuant to the Financing Agreement or these General Conditions, including (but not limited) any amount of the Withdrawn Credit Balance, the Service Charge, interest and the Commitment Charge.”

- (d) The definition of “Payment Date” is modified to read as follows:

“‘Payment Date’ means each date specified in the Financing Agreement occurring on or after the date of the Financing Agreement on which Service Charges, interest and Commitment Charges are payable.”

- (e) 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 Credit is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.