

CONFORMED COPY

CREDIT NUMBER 4177-PAK

Financing Agreement

(North West Frontier Province Development Policy Credit)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 1, 2006

CREDIT NUMBER 4177-PAK

FINANCING AGREEMENT

AGREEMENT dated June 1, 2006, entered into between ISLAMIC REPUBLIC OF PAKISTAN acting by its President (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 North West Frontier Province (NWFP) has already taken under the Program and which are described in the Schedule to the Program Agreement; and (b) NWFP'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 an amount equivalent to sixty two million seven hundred thousand Special Drawing Rights (SDR 62,700,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 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 repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is US Dollars.

ARTICLE III - PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end:
 - (a) the Recipient, the Association and NWFP 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 cause to be furnished 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 and NWFP 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 the Schedule to the Program 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:

Economic Affairs Division
Ministry of Economic Affairs and Statistics
Government of Pakistan
Islamabad, Pakistan

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

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Mushtaq Malik

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ John W. Wall

Country Director
Pakistan

SCHEDULE 1

Program Actions; Availability of Credit Proceeds

Section I. Actions under the Program

The actions to be taken under the Program are set out in the Schedule to the Program Agreement.

Section II. Availability of Credit Proceeds

A. General

1. 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.
2. The Recipient shall make the rupee equivalent of the proceeds of the Credit available to NWFP in accordance with the Recipient's on-lending policy.

B. Allocation of Credit Amounts. The total amount of the Credit shall be withdrawn in a single tranche.

C. Deposit of Credit Proceeds

1. The Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain on terms and conditions satisfactory to the Association a deposit account in United States Dollars ("Foreign Currency Deposit Account").
2. The Recipient shall cause NWFP to open, prior to the Recipient furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain on terms and conditions satisfactory to the Association, a deposit account in Rupees ("Local Currency Deposit Account").
3. All withdrawals from the Credit Account shall be deposited by the Association into the Foreign Currency Deposit Account. Upon each deposit of an amount of the Credit into the Foreign Currency Deposit Account, the Recipient shall deposit an equivalent amount into the Local Currency Deposit Account.

D. Audit. Upon the Association's request, the Recipient shall:

1. have both Deposit Accounts audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
2. furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and
3. furnish to the Association such other information concerning the Deposit Accounts and their audit as the Association shall reasonably request.

E. 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.

F. Closing Date. The Closing Date is June 30, 2007.

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, 2016 to and including March 15, 2026 | 1.25% |
| commencing September 15, 2026 to and including March 15, 2041 | 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. “Agricultural Policy” means NWFP’s Agricultural Policy of 2005.
2. “Bank of Khyber” means the commercial Bank established and operating under NWFP’s Bank of Khyber Act (No. XIV of 1991).
3. “Deposit Accounts” means both the Foreign Currency Deposit Account and the Local Currency Deposit Account.
4. “District Agricultural Coordination Forums” means stakeholder groups consisting of private sector, civil society and public sector representatives formed at the district level to serve as agricultural development coordination and advisory bodies.
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 |

| Group | Sub-group | Description of Item |
|-------|-----------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| 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) 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. "Farm Services Centers" means centers established in strategic locations within districts, to provide an interface among government agricultural line departments, civil society and farming communities for purposes of providing agricultural services and introducing new and improved and appropriate technologies.

7. "Fiscal Year" or "FY" means NWFP's fiscal year beginning on July 1 of a calendar year and ending on June 30 of the next following calendar year.
8. "Foreign Currency Deposit Account" means the account referred to in Part C.1 of Section II of Schedule 1 to this Agreement.
9. "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.
10. "HIV/AIDS" means Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome.
11. "IM&R" means instructional material and repairs.
12. "Investment Facilitation Council" means the Council established and operating under the office of the NWFP chief minister pursuant to Notification No. AEA (IND) 10-342 dated November 11, 2005.
13. "Investment Facilitation Committee" means the Committee established and operating under the office of the NWFP chief minister pursuant to Notification AEA (IND) 10-342 dated November 12, 2005.
14. "Local Currency Deposit Account" means the account referred to in Part C. 2 of Section II of Schedule 1 to this Agreement.
15. "NGO" means a non-governmental organization registered and operating in accordance with the laws of NWFP and the Recipient.
16. "NWFP" means the North West Frontier Province, a province of the Recipient.
17. "Procurement Law" means NWFP's Procurement of Goods, Works, Services and Consulting Services Ordinance (No. XVIII of 2002), as the same may be amended from time to time.
18. "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 from the Recipient dated April 4, 2006, transmitting to the Association a letter from NWFP dated March 29, 2006, declaring NWFP's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
19. "PGDP" means the provincial (i.e., NWFP's) gross domestic product.

20. "PTAs" means Parent Teacher Associations in government schools.
21. "Rupee" or "rupees" means the currency of the Recipient.
22. "Sarhad Development Authority" means the Authority established and operating under NWFP's Sarhad Development Authority Act (No. XI of 1973).

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 (2) 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 term “Project” wherever it is used in the General Conditions (including in the definition of “Project Implementing Entity”) is modified to read “Program” and the definition of “Program” is modified to read as follows:

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