CREDIT NUMBER 4109-PAK

Development Credit Agreement

(Second Improvement to Financial Reporting and Auditing Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 23, 2005
AGREEMENT, dated September 23, 2005, between ISLAMIC REPUBLIC OF PAKISTAN acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. Treatment of Taxes

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association's policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association.”
(b) Section 6.03(c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “AJK” means the territory of Azad Jammu and Kashmir;

(b) “Balochistan” means the Borrower’s Province of Balochistan;

(c) “CBR” means the Borrower’s Central Board of Revenue established and operating pursuant to the Central Board of Revenue Act 1924, and Cabinet Division Notification No. 4-14/98-MIN.1 dated 01-12-1998, or any successor thereof;

(d) “CGA” means the Borrower’s Controller General of Accounts;

(e) “DAO” means District Accounts Office;

(f) “DFO” means District Finance Office;

(g) “District” means a territorial unit known as such, organized for purposes of local government;

(h) “Eligible Categories” means Categories (1), (2), (3), and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(i) “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02(a) of this Agreement;

(j) “FABS” means the financial accounting and budgeting system developed under PIFRA I (as hereinafter defined) and expanded under this Project;

(k) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(l) “Fiscal Year” means the Fiscal Year of the Borrower beginning on July 1 of a calendar year and ending on June 30 of the following calendar year;

(m) “FO” means the Borrower’s Foreign Office;

(n) “GSP” means the Geological Survey of Pakistan;
“MoD” means the Borrower’s Ministry of Defense;

“MoF” means the Borrower’s Ministry of Finance;

“MTBF” means Medium Term Budget Framework;

“NBP” means the National Bank of Pakistan;

“NWFP” means the Borrower’s North West Frontier Province;

“OAGP” means the Office of the Auditor General of Pakistan;

“PC” means the Planning Commission of Pakistan;

“PPOD” means the Pakistan Post Office Department;

“Procurement Plan” means the Borrower’s procurement plan, dated May 31, 2005, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover the succeeding 18 month period (or longer) of Project implementation;

“Provinces” means collectively Balochistan, Punjab, Sindh and NWFP; and “Province” means any and each of the Provinces individually;

“PIFRA I” means the Borrower’s Project for the Improvement to Financial Reporting and Auditing, financed by the Association (Credit No. 2921 PAK);

“Project Directorate” means the directorate originally established within OAGP for the purposes of carrying out PIFRA I;

“PR” means Pakistan Railways;

“Punjab” means the Borrower’s Province of Punjab;

“PWD” means the Borrower’s Public Works Department;

“Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.4 of Schedule 1 to this Agreement;

“SAP” means a brand of data processing software;

“SBP” means the State Bank of Pakistan;
(gg) “Sindh” means the Borrower’s Province of Sindh;

(hh) “Special Account” means the account referred to in Section 2.02(b) of this Agreement;

(ii) “Steering Committee” means the Committee referred to in paragraph 1 of Schedule 4 to this Agreement;

(jj) “TAO” means Tehsil Accounts Office; and

(kk) “Tehsil” means a territorial unit known as such, organized for purposes of local government.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to fifty-six million six hundred thousand Special Drawing Rights (SDR56,600,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in NBP on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 1 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2010, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.
(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing September 15, 2015 and ending March 15, 2040. Each installment to and including the installment payable on March 15, 2025, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower’s per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association’s resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower’s economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date
referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower’s economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and accounting and auditing practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.
(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association’s approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project’s objectives; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association) audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial
statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

(i) retain, until at least one (1) year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(ii) enable the Association’s representatives to examine such records; and

(iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower’s progress reporting obligations set out in paragraph 3 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the
Association not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.
ARTICLE V

Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Secretary, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer of the Economic Affairs Division of the Ministry of Economic Affairs of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Economic Affairs Division
Ministry of Economic Affairs
Islamabad
Pakistan

Cable address: Telex: Facsimile:
ECONOMIC ECDIV-05-634 92-51-9205971
92-51-9218976

For the Association:

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

Cable address: Telex: Facsimile:
INDEVAS 248423 (MCI) or (202) 477-6391
Washington, D.C. 64145 (MCI)
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Khalid Saeed
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ John W. Wall
Country Director
Pakistan
SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Equipment</td>
<td>21,680,000</td>
<td>100%</td>
</tr>
<tr>
<td>(b) Vehicles</td>
<td>1,760,000</td>
<td></td>
</tr>
<tr>
<td>(2) Works</td>
<td>9,110,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Consultants’ services</td>
<td>10,470,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Training</td>
<td>9,150,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Unallocated</td>
<td>4,430,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>56,600,000</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR3,030,000, may be made on account of payments made for expenditures before that date but after March 31, 2005.

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than $200,000 equivalent per contract; (b) works costing less than $200,000 equivalent per contract; (c) services of individual consultants costing less than $50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than $100,000 equivalent per contract; and (e) training, all under such terms and conditions as the Association shall specify by notice to the Borrower.
4. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in NBP, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

   (a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

   (b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

   (a) if the Association, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

   (b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

   (c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports
required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.
Annex A
to
SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means an amount equivalent to $6,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2(a) of this Annex, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to $3,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General conditions shall be equal to or exceed the equivalent of SDR10,000,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

   (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

   (b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the
Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.
Annex B
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.
SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to assist the Borrower in continuing to build capacity to improve the accuracy, comprehensiveness, reliability, and timeliness of financial and fiscal reporting at all levels of government; (b) to directly support the Borrower’s commitment to improved public financial management, accountability, and transparency; (c) to enhance the capacity of public sector managers to use credible financial information for better and informed decision-making; and (d) to facilitate oversight of the use of public monies, and increase the national and international credibility of government’s financial statements and assurance processes.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:


1. Carrying out of an extension of FABS to cover: (a) the remaining DAOs in the Provinces; (b) the headquarters of PWD, FO, GSP and PPOD; and (c) the DAOs that perform the accounting function in AJK.

2. Carrying out of a further extension of FABS to cover: (a) federal line ministries and provincial line departments; (b) DFOs; and (c) TAOs, through a simple, medium-term financial management system designed and implemented on a pilot basis.

3. Carrying out of parallel supporting activities including: (a) the provision of comprehensive staff training in end-user systems; (b) the establishment and staffing of a SAP competency center; (c) the design and implementation of an improvement program to enable FABS to interface with SBP, NBP, CBR, and PC, and to accommodate MTBF provisions; (d) the development of a data warehouse capability to facilitate report writing and the production of analytical reports; (e) the development of a system to ensure information flows between accounting systems operated by the federal, provincial and district governments and between FABS and other systems; (f) the upgrading of DAO and other site infrastructure necessary for the implementation of FABS; and (g) the carrying out of a feasibility study for the extension of FABS to MoD and PR.

Part B: Capacity Building and Upgrading of the Office of the Auditor General of Pakistan (OAGP)

1. Development of central and field audit capacity to implement new methodologies, through the provision of technical assistance and training, and expanded/upgraded office space, equipment and information technology support.
2. Development of an integrated audit management information system (AMIS) to improve audit control, reporting and follow up between the central and decentralized audit directorates.

3. Development of a comprehensive staff training program and upgrading of training facilities.

Part C: Capacity Building and Upgrading of the Office of the Controller General of Accounts (CGA)

1. Upgrading of office space through: (a) the renovation of the CGA headquarters building in Islamabad; (b) the construction and renovation of the accountant general’s office buildings in Balochistan and Sindh; and (c) the extension and refurbishment of the treasury offices to full DAO standards in Balochistan.

2. Implementation of an improved internal audit framework through: (a) the enunciation of internal control principles for use by federal line ministries; (b) the building up of a highly skilled and trained internal audit staff complement; and (c) the development of a comprehensive set of internal controls, internal audit work programs and reporting regimes.

3. Revision/development of government accounting, budgeting, financial and internal control manuals.

4. Development of an improved records management system.

5. Strengthening of information technology capability through: (a) the induction of technical professional staff; (b) the provision of technical training opportunities; and (c) the strengthening of the SAP competency center.

6. Provision of staff training in financial management, accounting, internal audit and information technology.

* * *

The Project is expected to be completed by June 30, 2010.
SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than $200,000 equivalent per contract and works may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

   (a) invitations to bid shall be advertised in at least one national newspaper with a wide circulation, at least 30 days prior to the deadline for the submission of bids;

   (b) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;

   (c) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;

   (d) bidding shall not be restricted to pre-registered firms;
(e) qualification criteria shall be stated in the bidding documents;

(f) bids shall be opened in public, immediately after the deadline for submission of bids;

(g) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;

(h) before rejecting all bids and soliciting new bids, the Association’s prior concurrence shall be obtained;

(i) bids shall be solicited and contracts shall be awarded on the basis of unit prices and not on the basis of a composite schedule of rates (CSR);

(j) contracts shall not be awarded on the basis of nationally negotiated rates;

(k) contracts shall be awarded to the lowest evaluated and qualified bidders; and

(l) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders.

2. **Shopping.** Goods estimated to cost less than $50,000 equivalent per contract, and works estimated to cost less than $100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. **Direct Contracting.** Goods which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

**Section III. Particular Methods of Procurement of Consultants’ Services**

A. **Quality- and Cost-based Selection.** Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $500,000 equivalent per contract may comprise entirely national consultants.

B. **Other Procedures**

1. **Quality-based Selection.** Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.
2. **Selection Based on Consultants’ Qualifications.** Services estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. **Individual Consultants.** Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis subject to prior approval of the Association.

**Section IV. Review by the Association of Procurement Decisions**

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods, works and services (other than consultants’ services), estimated to cost the equivalent of $200,000 or more; and (b) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of $50,000 or more, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Association. All other contracts shall be subject to Post Review by the Association.
SCHEDULE 4

Implementation Program

1. The Borrower shall, throughout Project implementation, maintain the Steering Committee and the Project Directorate, each with functions, staffing and resources satisfactory to the Association.

2. The Borrower shall take steps to ensure that, throughout Project implementation:
   (a) adequate levels of staffing are maintained as needed for the Project and agreed with the Association from time to time; and
   (b) staff turn-over is kept to a minimum.

3. The Borrower shall ensure that:
   (a) no activities involving land acquisition will be included in the Project without prior approval of the Association; and
   (b) if any land acquisition is required, it shall be purchased commercially on a willing seller – willing buyer basis free of encumbrances.

4. The Borrower shall:
   (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;
   (b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association: (i) a report not later than June 30, 2007; and (ii) another report not later than December 31, 2008, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of each such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and
   (c) review with the Association, by September 30, 2007, the report referred to in paragraph (b)(i) of this Section, and March 31, 2009, with respect to the report referred to in paragraph (b)(ii) of this Section, or such later date in each case as the Association shall request, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association’s views on the matter.