Financing Agreement

(Additional Financing for the Second Improvement to Financial Reporting and Auditing Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 2, 2011
FINANCING AGREEMENT

AGREEMENT dated June 2, 2011, entered into between ISLAMIC REPUBLIC OF PAKISTAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association 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, in the Appendix to this Agreement, or in the Appendix to the Original Financing 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 fifteen million six hundred thousand Special Drawing Rights (SDR 15,600,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Payment Dates are March 15 and September 15 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.07. The Payment Currency is Dollars.
ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article IV of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

4.01. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.

4.02. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is the Secretary, Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer of the Economic Affairs Division, Government of Pakistan.

5.02. The Recipient’s Address is:

The Secretary
Economic Affairs Division
Government of Pakistan
Islamabad,
Pakistan

Facsimile:

(92-51) 9202417
5.03. The Association’s Address is:

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

Cable: INDEVAS
Telex: 248423 (MCI)
Facsimile: 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/ Abdul Wajid Rana
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By/s/ Rachid Benmessaoud
Authorized Representative
SCHEDULE 1

Project Description

The objectives and components of the Project are identical to those set forth in Schedule 2 to the Original Financing Agreement, as amended.
SCHEDULE 2
Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

The Recipient shall carry out the Project in accordance/compliance with the covenants set forth in Schedule 4 to the Original Financing Agreement which are incorporated herein by reference and apply, *mutatis mutandis*, to this Agreement.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Association not later than one (1) month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. The Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.
4. For purposes of paragraph 3 of this sub-section II.B, the Recipient shall, by no later than two (2) months after the end of its fiscal year, select and engage the services of an independent firm of chartered accountants acceptable to the Association, under terms of reference satisfactory to the Association.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants’ Services.** All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding (subject to the additional procedures set out in the Annex to Schedule 2)</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
</tbody>
</table>
C. Particular Methods of Procurement of Consultants’ Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. Other Methods of Procurement of Consultants’ Services. The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Selection Based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(b) Single Source Selection</td>
</tr>
</tbody>
</table>

D. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient, 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 US$200,000 or more; (b) each contract for goods, works and services (other than consultants’ services) procured under Direct Contracting regardless of its value; (c) each contract for consultants’ services provided by a firm estimated to cost the equivalent of US$100,000 or more; and (d) each contract for consultants’ services provided to be awarded under Single Source Selection, regardless of its value. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, consultants’ services, training and Incremental Operating Costs for the Project</td>
<td>15,600,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>15,600,000</td>
<td></td>
</tr>
</tbody>
</table>

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The Closing Date is June 30, 2013.

3. Notwithstanding the provisions of paragraph 1 of this Section IV.B, in the event that Eligible Expenditures under this Financing were also eligible for financing under the Original Financing, the Recipient undertakes to first utilize and exhaust the funds available and outstanding for such Eligible Expenditures under the Original Financing before filing any withdrawal applications hereunder for the financing of the said Eligible Expenditures.
ANNEX TO SCHEDULE 2

National Competitive Bidding: Additional Procedures

The following improvements in bidding procedures will apply to all procurements of goods under National Competitive Bidding, in order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section 1 of the Procurement Guidelines:

1. 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;

2. Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;

3. Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;

4. Bidding shall not be restricted to pre-registered firms;

5. Qualification criteria shall be stated in the bidding documents;

6. Bids shall be opened in public, immediately after the deadline for submission of bids;

7. Bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;

8. Before rejecting all bids and soliciting new bids, the Association’s prior concurrence shall be obtained;

9. Bids shall be solicited and contracts shall be awarded on the basis of unit prices;

10. Contracts shall not be awarded on the basis of nationally negotiated rates;

11. Single bid shall also be considered for award;

12. Contracts shall be awarded to the lowest evaluated and qualified bidder;

13. Post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders;
14. Draft NCB contracts shall be reviewed by the Association in accordance with the prior review procedures;

15. State-owned enterprises shall be eligible to bid only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the Recipient;

16. A firm declared ineligible by the Association, based on a determination by the Association that the firm has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for or in executing an Association-financed contract, shall be ineligible to be awarded an Association-financed contract during the period of time determined by the Association.

17. The Association shall declare a firm ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Association, if it at any time determines that the firm has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a contract financed by the Association; and

18. Each contract financed from the proceeds of a Credit shall provide that the suppliers, contractors and subcontractors shall permit the Association, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by the Association. The deliberate and material violation by the supplier, contractor or subcontractor of such provision may amount to obstructive practice.
# SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each March 15 and September 15</td>
<td></td>
</tr>
<tr>
<td>commencing March 15, 2021 to and including September 15, 2030</td>
<td>1.25%</td>
</tr>
<tr>
<td>commencing March 15, 2031 to and including September 15, 2045</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

* 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.
Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 with the modifications set forth in Section II of this Appendix.

2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

3. “Consultant Guidelines” means: (a) except as provided in sub-paragraph (b) below, the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006 and May 2010; and (b) in the case of contracts financed or to be financed, in whole or in part, out of the proceeds of the Original Financing, the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.


5. “Incremental Operating Costs” means the reasonable costs of incremental expenditures under the Project, including costs of salaries of contractual and temporary staff (other than consultants and/or civil servants), per diem and allowances, office rental, office supplies, utilities, conveyance, travel and boarding/lodging allowances, operation and maintenance of office equipment and vehicles, advertising expenses and normal bank charges, insurance costs, media projections, newspaper subscriptions, periodicals, printing and stationary costs incurred in connection with the management and coordination of Project activities, which expenditures would not have been incurred absent of the Project, but excluding salaries, bonuses, fees, and honoraria of members of the Recipient’s civil service.

6. “Original Financing Agreement” means the development credit agreement for a Second Improvement to Financial Reporting and Auditing Project between the Recipient and the Association, dated September 23, 2005, as amended to the date of this Agreement (Credit No.4109-PAK).

7. “Original Financing” means the credit extended to the Recipient by the Association, on the terms and conditions set forth or referred to in the Original Financing Agreement for the financing of the Original Project;
8. “Original Project” means the Project described in the Original Financing Agreement.

9. “Procurement Guidelines” means: (a) except as provided in subparagraph (b) below, the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006 and May 2010; and (b) in the case of contracts financed or to be financed, in whole or in part, out of the proceeds of the Original Financing, the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.

10. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated November 15, 2010 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

11. “Training” means the reasonable costs of trainings, workshops and conferences conducted in the territory of the Recipient, including the preparation, purchase and/or publication of training materials, rental of facilities, course fees and travel and subsistence allowances for trainers and/or trainees.

Section II. Modifications to the Anti-Corruption Guidelines

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“… (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“… (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the
Bank determines (fn15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”