April 4, 2012

Dr. Waqar Masood Khan
Secretary
Economic Affairs Division
Government of Pakistan
Islamabad
Islamic Republic of Pakistan

Re: Pakistan: Advance Agreement for Preparation of
Proposed Revenue Mobilization-DLI Project
Preparation Advance No. Q813-PK

Dear Dr. Masood Khan:

In response to the request for financial assistance made on behalf of the Islamic Republic of Pakistan ("Recipient"), I am pleased to inform you that the International Development Association ("World Bank") proposes to extend to the Recipient an advance out of the World Bank’s Project Preparation Facility in an amount not to exceed three million Dollars ($3,000,000) ("Advance") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in financing the activities described in the Annex ("Activities"). The objective of the Activities is to facilitate the preparation of a proposed project designed to build and implement a modern tax system and a transparent, effective and results-oriented tax administration, to facilitate and improve the compliance of tax laws ("Project"), in support of which the Recipient has requested the World Bank’s financial assistance.

The Recipient represents, by confirming its agreement below, that: (a) it understands that the provision of the Advance does not constitute or imply any commitment on the part of IBRD or IDA to assist in financing the Project; and (b) it is authorized to enter into this Agreement and to carry out the Activities, repay the Advance and perform its other obligations under this Agreement, all in accordance with the provisions of this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer
of this Agreement shall be deemed withdrawn if the World Bank has not received this
countersigned copy within ninety (90) days after the date of signature of this Agreement by the
World Bank, unless the World Bank has established a later date for such purpose.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Anthony Cholst
Acting Country Director, Pakistan
South Asia Region

AGREED:

ISLAMIC REPUBLIC OF PAKISTAN

By:

Authorized Representative

Name:

DR. WAQAR MASOOD KHAN

Title:

SECRETARY

Date:

April 17, 2012

Enclosures:

(1) “Standard Conditions for Advances Made by the World Bank under its Project Preparation
Facility”, dated July 31, 2010; and

(2) Disbursement Letter for the Advance of the same date as this Agreement, together with
Article I
Standard Conditions; Definitions


1.02. Definitions. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement, including the Appendix to this Agreement.

Article II
Execution of the Activities

2.01. Description of the Activities. The Activities for which the Advance is provided consist of the following parts:

(a) Improving tax policy formulation and revenue forecasting by:
   (i) strengthening the Recipient’s capacity for upgrading revenue forecasting techniques and tax policy formulation, with performance indicators geared to measure such capacity; and
   (ii) supporting the fiscal research efforts of FBR by strengthening its skills for tax policy formulation.

(b) Consolidating FBR’s tax administration reform by strengthening functions supporting results-oriented management through:
   (i) redesigning FBR’s strategy for tax administration in consultation with all of its wings and field formations to foster internal ownership and to be widely disseminated, providing the new vision of FBR;
   (ii) supporting areas like invoice management for consumption taxes and monitoring of withholding taxes to consolidate reform in inland revenues; and
   (iii) studying further infrastructure needs of FBR.

(c) Enhancing accountability and transparency of tax administration through:
   (i) supporting FBR’s review and subsequent design of and training on a proper monitoring and evaluation system;
   (ii) preparing a tax expenditure annex on tax exemptions and zero rates to be included in the annual budget of the Recipient to track measures leading to their elimination and ensuring gradual reduction in tax expenditure;
(iii) providing support to FBR’s communication strategy on the achievements of its reform progress; and

(iv) providing support to FTO to develop a series of workshops and study tours on best practices and advisory capacity.

(d) Strengthening FBR’s automation for a modern and performance-based administration through:

(i) supporting the strategic redefinition of the integrated tax management systems;

(ii) designing an inland revenue information technology platform and a customs information technology platform for imports, exports and transshipment clearance and supporting the role out of these platforms; and

(iii) expanding dedicated training on core information technology applications for senior and mid level management staff of FBR.

2.02. Execution of the Activities Generally. The Recipient declares its commitment to the objectives of the Activities. To this end, the Recipient shall carry out the Activities through FBR and FTO (collectively the “Implementing Entities” and individually the “Implementing Entity”) in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) this Article II; and (c) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.

2.03. Institutional and Other Arrangements. The Implementing Entities shall be responsible for the implementation, management and coordination of their Respective Activities, and:

(a) to this end, FBR and FTO shall establish and thereafter maintain throughout the period of implementation of their Respective Activities, individual Implementation Units (one for each organization), with functions and responsibilities acceptable to the World Bank, including, inter alia, the responsibility to manage and coordinate the Project preparation as well as the implementation of their Respective Activities under this Letter Agreement;

(b) FBR shall ensure that its respective Implementation Unit shall be led, at all times during the implementation of its Activities, by a dedicated and specifically appointed member of the Board of FBR, assisted by adequate professional and administrative staff (including procurement, financial management and monitoring and evaluation specialists), in numbers and with experience and qualifications, and operating under the terms of reference, agreed to between FBR and the World Bank; and

(c) FTO shall ensure that its respective Implementation Unit shall be led, at all times during the implementation of its Activities, by a dedicated and specifically appointed staff of the FTO, assisted by adequate professional and administrative staff (including procurement, financial management and monitoring and evaluation specialists), in numbers and with experience and qualifications, and operating under the terms of reference, agreed to between FTO and the World Bank.
2.04. **Monitoring, Reporting and Evaluation of the Activities.** The Recipient shall monitor and evaluate the progress of the Activities in accordance with the provisions of Section 2.08 of the Standard Conditions.

2.05. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.09 of the Standard Conditions.

(b) The Recipient shall ensure that interim un-audited financial reports are prepared and furnished to the World Bank by each Implementing Entity for their Respective Activities not later than thirty (30) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Sections 2.09(b) of the Standard Conditions:

(i) If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, the Recipient shall have the Financial Statements for each of the Implementing Entities included in the first audit of financial statements required under the Refinancing Agreement.

(ii) If, by the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, such audit of the Financial Statements shall cover the period of the Advance, commencing with the fiscal year in which the first withdrawal under the Advance was made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six (6) months after the end of the Recipient’s fiscal year in which the Refinancing Date occurs.

(iii) Notwithstanding the provisions of paragraphs (i) and (ii) of this Section, the World Bank may request an audit of the Financial Statements prior to the Refinancing Date, covering such period as is indicated in its request. The audited Financial Statements for such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.06. **Procurement**

(a) **General.** All goods and consultants’ services required for the Activities and to be financed out of the proceeds of the Advance shall be procured in accordance with the requirements set forth or referred to in:


(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Activities in
accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines ("Procurement Plan").

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods

(i) Except as otherwise provided in sub-paragraph (ii) below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan: (A) National Competitive Bidding, subject to the additional procedures set forth in sub-paragraph (iii) below; (B) Shopping; and (C) Direct Contracting.

(iii) The procedures applicable to the procurement of goods and non-consulting services under contracts awarded on the basis of National Competitive Bidding shall be those set out in Rules 5 and from 20 till 36 (a) of the Federal Public Procurement Rules (2004) (S.R.O. 432(1)/2004), with the modifications set out below, in order to ensure economy, efficiency, transparency, and broad consistency with the provisions of Section I of the Procurement Guidelines, pursuant to paragraph 3.3 of said Guidelines. In the event of a conflict between the Recipient's procedures and the modifications set out below, the latter shall govern.

(A) Invitations to bid shall be advertised in at least one (1) national newspaper with a wide circulation, at least thirty (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 the submission of bids.

(G) Bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior written agreement of the World Bank.

(H) Before rejecting all bids and soliciting new bids, the World Bank's prior written agreement shall be obtained.
(I) Contracts shall not be awarded on the basis of nationally negotiated rates.

(J) Single bids shall also be considered for award.

(K) Contracts shall be awarded to the lowest evaluated and qualified bidder.

(L) Post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidder.

(M) Draft contracts shall be reviewed by the World Bank in accordance with prior review procedures.

(N) 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.

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

(P) The World Bank shall declare a firm ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the World Bank, 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 executing a contract financed by the World Bank.

(Q) Each contract financed from the proceeds of the Advance shall provide that the suppliers, contractors, and subcontractors shall permit the World Bank, 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 World Bank. The deliberate and material violation by the supplier, contractor, or subcontractor of such provision may amount to an obstructive practice.

(d) Particular Methods of Procurement of Consultants' Services

(i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Selection based on Consultants' Qualifications; (B) Quality-based Selection; (C) Least-cost Selection; (D) Selection under Fixed Budget; (E) Single-source Selection of consulting firms; (F) Selection of Individual Consultants; and (G) Single-source procedures for the Selection of Individual Consultants.
(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Article III  
Withdrawal of the Advance

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Advance in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies each category of Eligible Expenditures that may be financed out of the proceeds of the Advance (“Category”), the amount of the Advance allocated 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 Advance Allocated (expressed in Dollars)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, consultants’ services, non-consulting services, Training, Workshops and Study Tours, and Incremental Operating Costs for Activities to be carried out by FBR</td>
<td>2,729,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, consultants’ services, non-consulting services, Training, Workshops and Study Tours, and Incremental Operating Costs for Activities to be carried out by FTO</td>
<td>271,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>3,000,000</td>
<td></td>
</tr>
</tbody>
</table>

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made:

(a) for payments made prior to the date of countersignature of this Agreement by the Recipient; and

(b) under Category (1) until and unless FBR has formally established its Implementation Unit pursuant to sub-paragraphs (a) and (b) of Section 2.03 of this Annex; and
3.03. **Refinancing Date.** The Refinancing Date is June 17, 2013.

**Article IV**

**Terms of the Advance**

4.01. **Service Charge.** The Recipient shall pay a service charge on the Withdrawn Advance Balance at the rate of three-fourths of one percent (3/4 of 1%) per annum. The service charge shall accrue from the respective dates on which amounts of the Advance are withdrawn and shall be paid in arrears in accordance with the provisions of Section 4.02 of this Agreement. Service charges shall be computed on the basis of a 360-day year of twelve 30-day months.

4.02. **Repayment.** The Withdrawn Advance Balance shall be repaid by the Recipient to the World Bank (together with any service charges accrued thereon) in accordance with the provisions of Article IV of the Standard Conditions and the following provisions:

(a) **Refinancing under the Refinancing Agreement:** If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, then the full amount of the Withdrawn Advance Balance shall be repaid to the World Bank (together with any service charges accrued on the Advance to the date of repayment) as soon as the Refinancing Agreement becomes effective, by means of a withdrawal by the World Bank of an amount of the Refinancing Proceeds equivalent to the Withdrawn Advance Balance plus such service charges, in accordance with the provisions of the Refinancing Agreement.

(b) **Repayment in the absence of a Refinancing Agreement:** If, on or before the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, or if, by such date or at any time thereafter, it has been so executed but terminates without becoming effective, then:

(i) if the amount of the Withdrawn Advance Balance does not exceed $50,000, it shall be repaid by the Recipient to the World Bank (together with service charges accrued on the Withdrawn Advance Balance to the date of repayment) on such date as the World Bank shall specify in a notice to the Recipient, which shall in no event be earlier than 60 days following the date of dispatch of such notice; and

(ii) if the amount of the Withdrawn Advance Balance exceeds $50,000, it (together with service charges accrued on the Withdrawn Advance Balance to the Notice Date) shall be paid by the Recipient to the World Bank in ten approximately equal semiannual installments, in the amounts and on the dates (“Payment Dates”) which the World Bank shall specify in a notice to the Recipient. In no event shall the first Payment Date be set earlier than 60 days following the date (“Notice Date”) of dispatch of such notice. The Recipient shall pay a service charge on the Aggregate Balance at the rate of three-fourths of one percent (3/4 of 1%) per annum, payable in arrears on each Payment Date. The service charge shall be computed on the basis of a 360-day year of twelve 30-day months.
Article V
Recipient’s Representative; Addresses

5.01. Recipient’s Representative. The Recipient’s Representative referred to in Section 9.02 of the Standard Conditions is the Secretary, Additional Secretary, Joint Secretary, Deputy Secretary, or Section Officer of the Economic Affairs Division of the Ministry of Economic Affairs and Statistics, each such person acting individually.

5.02. Recipient’s Address. The Recipient’s Address referred to in Section 9.01 of the Standard Conditions is:

The Secretary to the Government of Pakistan
Economic Affairs Division
Ministry of Economic Affairs and Statistics
Islamabad
Pakistan

Facsimile:

92-51-921-8976

5.03. World Bank’s Address. The World Bank’s Address referred to in Section 9.01 of the Standard Conditions 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

Washington, D.C.
APPENDIX

Definitions

1. "FBR" means the Recipient’s Federal Board of Revenue established and operating pursuant to the Federal Board of Revenue Act, S.R.O. 1064-(I)/2007, or any successor thereof.


3. "Implementation Unit" means individually each of the units to be established by both FTO and FBR pursuant to Section 2.03(a) of the Annex to this Agreement.

4. "Incremental Operating Costs" means the reasonable costs of salaries of contractual staff (other than consultants and/or civil servants) and Project 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 in connection with the management and coordination of the Activities, which expenditures would not have been incurred absent the Activities.

5. "Project Allowances" means the salary supplements (top-ups) to be paid by the Recipient to civil servants seconded as Project staff to the Implementation Units and working full time for the implementation of the Activities, as permitted by the Recipient’s civil service statutes, policies and regulations.

6. "Respective Activities" means:

(a) In respect of FBR: The Activities described in sub-paragraph (a), (b), (c) (except sub-paragraph 2.01(c)(iv)) and (d) of Section 2.01 of the Annex to this Agreement; and

(b) In respect of FTO: The Activities described in sub-paragraph (c)(iv) of Section 2.01 of the Annex to this Agreement.

7. "Training, Workshops and Study Tours" means the reasonable costs of trainings, workshops, conferences and study tours conducted on the territory of the Recipient or, subject to prior no-objection of the World Bank, attended overseas by FBR or FTO staff, including the travel expenses and per diem, purchase and publication of materials, rental of facilities, course fees and other ancillary costs to be incurred by either trainers or trainees.