

OFFICIAL
DOCUMENT

CREDIT NUMBER 5584 -PK

Financing Agreement

(Sindh Public Sector Management Reform Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated *March 11,* , 2015

FINANCING AGREEMENT

AGREEMENT dated *March 11*, 2015, entered into between ISLAMIC REPUBLIC OF PAKISTAN ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). 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 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 thirty three million nine hundred thousand Special Drawing Rights (SDR 33,900,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%).
- 2.05. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.
- 2.06. The Payment Dates are April 1 and October 1 in each year.

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- 2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 4 to this Agreement.
- 2.08. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 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 Additional Condition of Effectiveness consists of the following, namely, that the Participation Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
- 4.02. The Effectiveness Deadline is the date ninety days (90) days after the date of this Agreement.
- 4.03. 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, Senior Joint Secretary, Joint Secretary, Deputy Secretary, or Section Officer of the Economic Affairs Division of the Recipient's Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization.

5.02. The Recipient's Address is:

The Secretary to the Government of Pakistan
Economic Affairs Division
Ministry of Finance, Revenue, Economic Affairs,
Statistics and Privatization
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:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI)

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



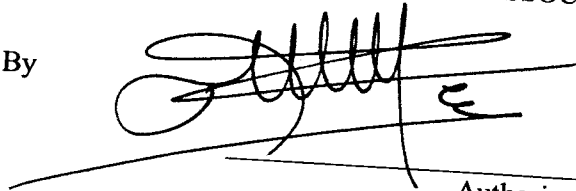
Authorized Representative

Name: Muhammad Saleem

Title: Secretary, IAD

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Rachid Benmessaoud

Title: Country Director

SCHEDULE 1

Project Description

The objective of the Project is to strengthen public sector performance in Sindh through improved revenue generation and expenditure management.

The Project consists of the following parts:

Component 1: Results-Based Financing to Provide Incentive for Achieving Selected Public Sector Management Reforms

1. Increasing tax revenue mobilization through tax policy reforms and enhanced administrative efficiency in tax collection, including:
 - (a) Fostering the institutional development of the Sindh Revenue Board (“SRB”) by: (i) implementing human resources managements reforms; (ii) carrying out administrative reforms to establish an effective internal monitoring mechanism for the introduction of risk-based audits; and (iii) formulating and implementing a coherent ICT strategy for the automation of tax collection; and
 - (b) Improving monitoring and evaluation, as well as transparency on tax collection by preparing comprehensive annual reports disclosing SRB’s performance data.
2. Strengthening the performance of the public financial management systems through the improvement of budget formulation and execution processes and related oversight mechanisms, including:
 - (a) Establishing an internal audit functions within the Government Departments including: (i) the drafting and approval of an internal audit charter/manual; and (ii) preparation and implementation of risk-based audit plans;
 - (b) Improving debt management practices by: (i) establishing a debt management unit within the FD; (ii) coordinating provincial debt information and consolidating a debt database; (iii) formulating a debt management strategy and undertaking debt sustainability analysis; and (iv) designing an operational risk management plan, including business-continuity and disaster recovery arrangements;
 - (c) Increasing field official’s compliance with data collection protocols of the financial management information system, including improving field checks and monitoring processes; and

- (d) Increasing transparency in budget formulation and execution by: (i) establishing systems and building capacity within the FD in order to ensure routine release of up-to-date accessible and user friendly budget information; (ii) promoting the use and carrying out analysis of available budget information; and (iii) strengthening citizens' inputs and feedback on budget formulation, execution and disclosure.
3. Strengthening public procurement performance, transparency and accountability through:
- (a) Providing support to Sindh Public Procurement Regulatory Authority ("SPPRA") to build capacity of procurement professionals by: (i) preparing and implementing a procurement training plan; and (ii) developing a system for procurement certification to address training gaps;
 - (b) Creating transparency and accountability mechanisms to improve effectiveness of procurement performance monitoring, by: (i) assisting SPPRA to develop procurement baselines, monitoring indicators and performance benchmarks for various implementing agencies; and (ii) prepare annual reports on the performance of various procurement entities; and
 - (c) Implementing an e-government procurement systems and strategy in selected Government Departments.
4. Improving management and monitoring of development portfolio through the strengthening of the monitoring and evaluation cell of the Planning and Development Department ("P&DD") in order to assess the physical and financial execution of development schemes, and identify resources and bottlenecks, including:
- (a) Improving the delivery of the development portfolio by establishing a full reporting system, linking field supervision inputs with an online management dashboard, providing an up-to-date record of physical and financial progress of individual investment schemes;
 - (b) Geo-tagging development schemes for improved spatial planning implementation monitoring by equipping monitoring officers and/or third parties with smartphones to record observations in a digital form;
 - (c) Reaching out to beneficiaries in the catchment area of development schemes to initiate proactive communications and seek stakeholders' feedback on the progress in implementation of such schemes; and

- (d) Improving transparency and implementing the Sindh Freedom of Information of Act (2006), through disclosure of budget implementation reports, spatial coverage and photographic reports of development schemes, and assessments of provincial procurement performance.

Component 2: Technical Assistance to Support Capacity Building and Institutional Strengthening Associated with Achievement of Eligible Public Sector Management Reforms.

1. Providing technical assistance to the FD, SPPRA, SRB and selected Government Departments to support the achievement of results under Component 1 above, including:
 - (a) *Sindh Tax Revenue Mobilization Reform Plan*: (i) Establishing a TRU within FD and carrying out analytical studies to support decision-making process in respect of tax policies and administrative reforms; (ii) reviewing critical aspects of the Sale Tax on Services in order to foster procedural harmonization among tax agencies in Sindh; (iii) establishing a training facility in sales tax administration, and pre- and in-service training activities for tax agencies; (iv) conducting initial studies to identify mechanisms to increase public understanding of tax collection in Sindh; (v) conducting GIS and satellite imaging analysis for property tax and other tax reforms; (vi) conducting regular taxpayer communication, education and facilitation activities; and (vii) supporting Sindh efforts to implement tax reform plans.
 - (b) *Sindh Public Financial Management Reform Strategy*: (i) Enhancing the use of financial management information systems in the FD, P&DD and selected Government Departments; (ii) improving cash management mechanism and accounting practices; (iii) providing training to staff of the FD, the P&DD and selected Government Departments on the use of financial management information systems; (iv) carrying out pre-budget workshops and seminars; (v) providing technical assistance for improved debt management; (vi) carrying out pension and payroll audits; (vii) strengthening public accounts committees; (viii) improving asset recording, internal controls and expenditure commitment controls; and (ix) citizen engagement and information disclosure practices;
 - (c) *Procurement Reforms*: (i) Identifying and carrying out required changes for the effective implementation of new technologies for e-procurement and monitoring and information systems; (ii) partnering with higher education institutions and specialized training institutions to develop training modules for procurement officials; and (iii) supporting SPPRA in developing its own institutional capacity and strengthening its regulatory framework;

- (d) *Management of Development Portfolio:* (i) Providing technical support to the monitoring and valuation cell of the Pⅅ (ii) developing systems for photo-enforced monitoring; (iii) conducting satellite imaging and other GIS analysis, including creation of related infrastructure to improve poverty assessments and pro-poor development targeting; and (iii) supporting proactive beneficiary feedback on government development schemes; and
 - (e) *Institutional Support:* (i) Providing technical support to carry out e-governance, taxation and other public sector reform innovations for incubation, documentation and scale up; (ii) establishing a dedicated information and communications unit within the FD; (iii) developing and implementing a communications strategy; (iv) carrying out an institutional review of Sindh's IT Department capacity to implements e-services, including third party reviews and impact evaluations; (v) conducting third party reviews of fulfilment/achievement of DLRs; and (vi) conducting evaluations of citizens' feedback and ICT-based monitoring mechanisms.
2. Carrying out Project management activities, including support to the FD and SRB to strengthen their institutional capabilities, through: (i) training of staff; (ii) recruitment/hiring of financial management, procurement and monitoring and evaluation specialists; (iii) implementing consensus building activities with stakeholders; (iv) carrying out annual external audits; and (v) establishing a dedicated information and communications unit within FD.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. On-lending Arrangements

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity in accordance with the provision of this Agreement and the Recipient's on-lending policies and budgetary procedures, and under the same terms and conditions as shall have been received from the Association.
2. Notwithstanding paragraph 1 above, in the event that any of the provisions of this Agreement, including the instructions that the Association shall have specified by notice to the Recipient pursuant to Section IV.A.I of this Schedule, are inconsistent with the budgetary procedures of the Recipient, the provision of this Agreement shall prevail.
3. The Recipient shall exercise its rights under the on-lending arrangements referred to in the preceding paragraphs in such manner as to protect the interests of the Association and to accomplish the purposes of the Financing.

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 cause the Project Implementing Entity to 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 indicators acceptable to the Association. Each Project Report shall cover the period of six (6) months, and shall be furnished to the Association not later than forty five (45) days 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. Without limitation on the provisions of Part A of this Section, the Recipient shall cause the Project Implementing Entity to prepare and furnish to the Association not later than forty five (45) days after the end of each calendar semester, interim financial reports for the Project covering the respective semester, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements and cause the Project Implementing Entity to 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 Fiscal Year of the Recipient and the Project Implementing Entity, commencing with the Fiscal Year in which the first withdrawal was made. 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.

Section III. Procurement

A. General

1. **Goods and Non-consulting Services.** All goods and non-consulting 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 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Non-consulting Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, all goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Non-consulting Services.** 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 the Attachment to this Schedule; and (b) Shopping.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, all 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 methods, other than Quality and Cost-based Selection, may be used for procurement of consultants' services for those contracts which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection based on Consultants' Qualifications; (e) Single-source Selection of consulting firms; (f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (g) Single-source procedures for the Selection of Individual Consultants.

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. 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:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Eligible Expenditures Program	27,100,000	100%
(2) Goods, non-consulting services, consultants' services, Training, and Incremental Operating Costs for activities under Component 2 of the Project to be implemented by the FD	3,400,000	100%
(3) Goods, non-consulting services, consultants' services, Training, and Incremental Operating Costs for activities under Component 2 of the Project to be implemented by the SRB	3,400,000	100%
TOTAL AMOUNT	33,900,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 6,780,000 equivalent may be made for payments made prior to this date but on or after March 1, 2014, for Eligible Expenditures under Category (1); provided however that the Recipient shall have met the requirements set forth in paragraphs (b) and (c) below;
 - (b) under Category (1) until and unless Project Implementing Entity has prepared and adopted an Operations Manual, in a manner and substance satisfactory to the Association, pursuant to Section I.B.1 of the Schedule to the Project Agreement; and

2. Notwithstanding the provisions of Part 1.A of this Section, the Recipient shall only submit an application for withdrawal under under Category (1) and withdrawal shall only be made for each such application if the Recipient has:
 - (i) complied with the additional instructions referred to in Section IV.A.1 of this Schedule, including the submission to the Association of the applicable IFR detailing the expenditures incurred under the EEP up to the date of the applicable withdrawal application; and
 - (ii) furnished evidence, acceptable to the Association, of the Project Implementing Entity's satisfactory achievement of each DLR for the respective Fiscal Year and for which payment is requested as set forth in Schedule 3 to this Agreement.

3. Notwithstanding the foregoing, if the Association determines in its sole discretion that one or more of the DLRs set forth in Schedule 3 to this Agreement has/have not been achieved, or were no longer achievable, by the end of the respective Fiscal Year and/or the Closing Date, then, the Association shall withhold the allotted Price for the unmet DLR(s) and, at its sole discretion, may:
 - (a) authorize partial releases of the amounts so withheld/to be withheld, if and when the Association is satisfied that: (i) the non-fulfillment of the respective DLR(s) is due to an event of force majeure; and/or (ii) the Recipient and/or Sindh have/has made reasonable efforts, in the sole opinion of the Association, to remedy the situation in order to achieve said DLR(s);
 - (b) authorize, at a later date, the full release of the amounts so withheld, if and when the Association is satisfied that the respective DLR(s) has/have been achieved; and/or
 - (c) at any time, by notice to the Recipient, cancel the amount(s) so withheld/to be withheld, and/or reallocate it/them, whether in full or in part, to any other Category and/or DLR(s).

4. The Closing Date is August 31, 2020.

ATTACHMENT TO SCHEDULE 2

**Improvement of Bidding Procedures under
National Competitive Bidding**

When procuring goods and non-consultant's services pursuant to the provisions of Rules 4 to 15, 17, 20 to 26, 29, 30, 41 to 45 of the Sindh Public Procurement Rules (2010) (SROI (SGA&CD) 2-30/2010), as agreed to with the Association, the Recipient shall ensure that the following additional requirements be applied in order to align such procedures with the Procurement Guidelines:

- (i) Invitation to bid shall be advertised in at least one national newspaper with wide circulation, at least 30 days prior to the deadline for the submission of bids; unless a shorter period is agreed in the procurement plan;
- (ii) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (iii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;
- (iv) bidding shall not be restricted to pre-registered firms;
- (v) qualification criteria shall be stated in the bidding documents;
- (vi) bids shall be opened in public, immediately after the deadline for submission of bids;
- (vii) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (viii) before rejecting all bids and soliciting new bids, the Association's prior concurrence shall be obtained;
- (ix) bids shall be solicited and works contracts shall be awarded on the basis of unit prices and not on the basis of a composite schedule of rates;
- (x) contracts shall not be awarded on the basis of nationally negotiated rates;
- (xi) a single bid shall also be considered for award;
- (xii) contracts shall be awarded to the lowest evaluated and qualified bidder;
- (xiii) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders;

- (xiv) draft NCB contract would be reviewed by the Association in accordance with prior review procedures;
- (xv) any 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; and
- (xvi) each contract financed from the proceeds of the 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

Disbursement-Linked Indicators, Disbursement-Linked Results and Respective Prices

DISBURSEMENT-LINKED INDICATORS	DISBURSEMENT-LINKED RESULTS				
	RESULTS TO BE ACHIEVED IN FY2014/15 (YEAR 1)	RESULTS TO BE ACHIEVED IN FY2015/16 (YEAR 2)	RESULTS TO BE ACHIEVED IN FY2016/17 (YEAR 3)	RESULTS TO BE ACHIEVED IN FY2017/18 (YEAR 4)	RESULTS TO BE ACHIEVED IN FY2018/19 (YEAR 5)
1. Approval and implementation of Sindh Tax Revenue Mobilization Plan	(i) FD has publicly disclosed the Sindh Tax Revenue Mobilization Reform Plan.				
	(ii) SRB's collection of STS for FY2013/14 reached PKR 39.43 billion.				
	Price SDR 6,700,000				
2. Enhanced SRB human resources capacity for administration.	SRB has approved an enhanced staffing and training plan and a human resources policy acceptable to the Association.	SRB has: (i) hired and trained at least 50% of the staff sanctioned as per approved staffing plan; and (ii) carried out a third party review of the staffing plan and the implementation thereof.	SRB has: (i) approved a revised staffing plan as per the recommendation of the third party review; and (ii) has hired and trained at least 75% of the staff sanctioned as per the revised staffing plan.	SRB has: (i) has hired and trained at least 90% of the staff sanctioned as per revised staffing plan; and (ii) carried out a third party review of the revised staffing plan and the implementation thereof.	SRB has approved a revised staffing plan as per the recommendation of the third party review.
	Price SDR 1,360,000	Price SDR 340,000	Price SDR 680,000	Price SDR 680,000	Price SDR 340,000
3. Increased automation of SRB systems.	SRB has developed and approved an automation plan for tax collection and administration.	SRB has: (i) piloted the automation plan; (ii) established linkages with third party databases; and	SRB has: (i) implemented the automation plan; and (ii) carried out a third party	SRB has: (i) issued all notices to at least 90% of non-compliant registered taxpayers in FY2017/18	SRB has issued all notices to at least 90% of non-compliant registered taxpayers in FY2018/19

DISBURSEMENT-LINKED RESULTS										
DISBURSEMENT-LINKED INDICATORS	RESULTS TO BE ACHIEVED IN FY2014/15 (YEAR 1)		RESULTS TO BE ACHIEVED IN FY2015/16 (YEAR 2)		RESULTS TO BE ACHIEVED IN FY2016/17 (YEAR 3)		RESULTS TO BE ACHIEVED IN FY2017/18 (YEAR 4)		RESULTS TO BE ACHIEVED IN FY2018/19 (YEAR 5)	
		Price	SDR 1,360,000	Price	SDR 340,000	Price	SDR 680,000	Price	SDR 340,000	Price
4. Risk-based audits of taxpayers implemented.		SRB has developed a risk-based criteria for the carrying out of taxpayer audits and fraud investigations.	(iii) carried out a third party review of the automation systems.	SRB has (i) conducted audits of taxpayers as per the risk-based criteria; and (ii) established a <i>hit rate</i> benchmark (baseline).	SRB has: (i) conducted audits of taxpayers as per the risk-based criteria, resulting in: (A) a <i>hit rate</i> of 85%, or (B) a <i>hit rate</i> increase of at least 5% (against benchmark), during the initial nine months of FY2016/17; and (ii) when applicable, initiated the corresponding fraud investigations.	database analysis.	SRB has: (i) conducted audits of taxpayers as per the risk-based criteria, resulting in: (A) a <i>hit rate</i> of 85%, or (B) a <i>hit rate</i> increase of at least 5% (against the previous Fiscal Year's <i>hit rate</i>), during the initial nine months of FY2017/18; and (ii) when applicable initiated the corresponding fraud investigations.	through automated systems; (ii) carried out a third party review of the automation systems; (iii) reviewed the recommendations made by the foregoing third party review; and (iv) approved a follow-up automation implementation plan.	SRB has: (i) carried out a strategic review to enhanced risk-based criteria objectivity; and (ii) approved a compliance risk management strategy, in order to increase the audits' <i>hit rate</i> .	through automated systems.
5. Establishment of internal	Price	SDR 680,000	Price	SDR 680,000	Price	SDR 680,000	Price	SDR 340,000	Price	SDR 340,000
of internal		FD has: (i) established internal audit functions	FD has: (i) conducted an internal audit(s); and (ii)	At least three (3) Government	(i) At least five (5) Government	(i) At least seven (7) Government				

DISBURSEMENT-LINKED RESULTS					
DISBURSEMENT-LINKED INDICATORS	RESULTS TO BE ACHIEVED IN FY2014/15 (YEAR 1)	RESULTS TO BE ACHIEVED IN FY2015/16 (YEAR 2)	RESULTS TO BE ACHIEVED IN FY2016/17 (YEAR 3)	RESULTS TO BE ACHIEVED IN FY2017/18 (YEAR 4)	RESULTS TO BE ACHIEVED IN FY2018/19 (YEAR 5)
		and identified the audit scheme(s), which can be revised from time to time; and (ii) allocated sufficient and adequate staff thereof, in numbers and with qualifications and with qualifications satisfactory to the Association.	prepared a risk-based audit plan.	Departments (in addition to the FD) have: (i) conducted internal audits; and (ii) submitted their internal audits reports to their PAOs.	Departments (in addition to the FD) have: (A) conducted internal audits; and (B) submitted their internal audits reports to their PAOs.
	Price SDR 1,360,000	Price SDR 680,000	Price SDR 340,000	Price SDR 680,000	Price SDR 340,000
6. Transparency in budget formulation, allocation and execution.	FD has: (i) submitted to the Cabinet the Budget Strategy Paper for FY2015/16; and (ii) submitted at least two (2) quarterly budget execution reports for FY2014/15 to the Provincial Assembly, and published them in FD's website.	FD has: (i) submitted to the Cabinet the Budget Strategy Paper for FY2016/17; and (ii) submitted all four (4) quarterly budget execution reports for FY2015/16 to the Provincial Assembly, and published them in FD's website.	FD has: (i) submitted to the Cabinet the Budget Strategy Paper for FY2017/18; and (ii) submitted all four (4) quarterly budget execution reports for FY2016/17 to the Provincial Assembly, and published them in FD's website.	FD has: (i) submitted to the Cabinet the Budget Strategy Paper for FY2018/19; and (ii) submitted all four (4) quarterly budget execution reports for FY2017/18 to the Provincial Assembly, and published them in FD's website.	FD has: (i) submitted to the Cabinet the Budget Strategy Paper for FY2019/20; and (ii) submitted all four (4) quarterly budget execution reports for FY 2018/9 to the Provincial Assembly and published them in FD's website.
	Price SDR 680,000	Price SDR 680,000	Price SDR 340,000	Price SDR 680,000	Price SDR 340,000
7. Procurement	SPPRA has: (i) developed a procurement	SPPRA has certified at least fifty (50) officers of	SPPRA has: (i) certified at least two hundred	SPPRA has certified at least three hundred (300)	SPPRA has certified at least five hundred (500)

SCHEDULE 4

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 1 and October 1:	
commencing April 1, 2020 to and including October 1, 2029	1.65%
commencing April 1, 2030 to and including October 1, 2039	3.35%

* 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. "AG Office" means the office of the Accountant General of Sindh or any successor thereto.
2. "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 and revised in January 2011.
3. "BOR" means the Board of Revenue of the Government of Sindh, established pursuant to the West Pakistan Board of Revenue Act, 1957 (Act XI of 1957) of February 28, 1957, as amended in to the date of this Agreement; and or any successor thereto.
4. "BPS-16" means grade 16 of the basic pay scale system of the Recipient's and the Project Implementing Entity's civil service.
5. "Budget Strategy Paper" means the strategy paper prepared on an annual basis by the FD setting forth the contour of the budget proposal for a given Fiscal Year of the Project Implementing Entity, including its policies and priorities and the allocation of budgetary resources.
6. "Cabinet" means the cabinet comprised of the Chief Minister (Chair) and the Ministers of Government of Sindh, as provided for in the Sindh Government Rules of Business, 1986 notified on August 13, 1988, pursuant to Notification SOR-I (S&GAD) 3/2-85(Pt. III).
7. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
8. "Consultant Guidelines" means the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014).
9. "Disbursement-Linked Indicator" and the acronym "DLI" mean each of the disbursement-linked indicators set forth in the first column of the matrix set forth in Schedule 3 to this Agreement.
10. "Disbursement-Linked Result" and the acronym "DLR" mean each of the disbursement-linked targets/results, the achievement of each of which shall be satisfactory to the Association, set forth in Schedule 3 to this Agreement in the columns entitled "Results to be Achieved in FY2014/15", "Results to be Achieved in FY2015/16", "Results to be Achieved in FY2016/17", Results to be

Achieved in FY2017/18” or “Results to be Achieved in FY2018/19”, as applicable.

11. “E&TD” means the Excise and Tax Department of Sindh, and/or any successor thereto.
12. “Economic Reform Unit” means the project implementation units established within the FD pursuant to Notification No. SO(C-IV)/SGA&CD/4-42/2008, and referred to in Section I.A.1.(b) of the Schedule to the Project Agreement.
13. “Eligible Expenditures Program” means the reasonable costs of salaries, allowances, top-ups and related expenses of the FD’s, P&DD’s, E&TD’s and SRB’s staff, which are defined expenditures incurred by the Sindh under the following budget grant/fund numbers, object codes and function codes:

Department	Budget Grant No.	Object Code & Description	Function Code
FD	SC21003	A01 Employee Related Expenses	011204
			011205
			011206
			011207
P&DD (including SPPRA)	SC21008	A01 Employee Related Expenses	015201
			015220
			093103
E&TD	SC21005	A01 Employee Related Expenses	011205
SRB	SC21004	A01 Employee Related Expenses	011205

14. “Finance Department” and the acronym “FD” mean the Finance Department of Sindh, and/or any successor thereto.
15. “Fiscal Year” and the acronym “FY” means the fiscal year of Sindh which commences on July 1 and closes on June 30 of each year.
16. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010, with the modifications set forth in Section II of this Appendix.
17. “GIS” means a geographic information system, i.e. a computer system designed to capture, store, manipulate, analyze, manage, and present all types of geographical data.

18. “Government Departments” means, collectively, any of the departmental units of the Government of Sindh, as defined in the Sindh Government Rules of Business, issued via Notification No. SOR-I (S&GAD) 3/2-85 (Pt. III) of August 13, 1988.
19. “ICT” means information and communication technologies.
20. “Incremental Operating Costs” means the incremental expenditures for salaries of contractual staff (other than consultants); per diems; office rental; office supplies; utilities; conveyance; travel and boarding/lodging allowances; operation and maintenance of office equipment and vehicles; advertising expenses and bank charges; insurance, media broadcastings, newspaper subscriptions, periodicals, printing and stationery costs, in connection with the management, coordination and implementation of Project activities, which expenditures would not have been incurred absent the Project, including salaries and/or salary top-ups of the Project Implementing Entity’s civil servants.
21. “IT Department” means the Sindh’s Information and Technology Department and/or any successor thereto.
22. “Operations Manual” means the manual to be prepared and adopted by the Project Implementing Entity, in form and substance satisfactory to the Association, pursuant to Section I.B.1 of the Schedule to the Project Agreement.
23. “Participation Agreement” means the agreement to be entered into by and between the Project Implementing Entity and SRB in accordance with Section I.E of the Schedule to the Project Agreement, as condition precedent for the effectiveness of this Financing Agreement, in accordance with Section 4.01 of this Agreement.
24. “Pakistani Rupees” and the acronym “PKR” mean the legal currency of the Islamic Republic of Pakistan.
25. “PAO” means, the principal accounting officer of a Government Department.
26. “Planning and Development Department” and the acronym “P&DD” mean the Planning and Development Department of Sindh, and/or any successor thereto.
27. “Price” means the amount in Special Drawing Rights allocated to each individual DLR pursuant to Schedule 3 to this Agreement, as such amount might be increased, reallocated and/or cancelled (whether partially or in its entirety) by the Association, from time to time as the case may be, in accordance with the provisions of Section IV.B.3 of Schedule 2 to this Agreement.
28. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014).

29. "Procurement Plan" means the Recipient's procurement plan for the Project, dated November 25, 2014 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
30. "Provincial Assembly" means Sindh's Provincial Assembly, established pursuant to Article 106 of the Constitution of the Islamic Republic of Pakistan.
31. "Project Implementing Entity" means the Recipient's Province of Sindh.
32. "Project Steering Committee" means the committee to be established pursuant Section I.A.1(a) of the Schedule to the Project Agreement.
33. "Public Financial Management Reform Strategy" means Sindh's financial management reform strategy approved by the Provincial Cabinet on its meeting held on October 29, 2014 (*vide* letter of November 7, 2014), and referred to in Section I.C.1 of the Schedule to the Project Agreement.
34. "Sale Tax on Services" and the acronym "STS" mean the tax levied on services instituted pursuant to Sindh's Act XII of 2011, of June 10, 2011 as amended.
35. "Sindh" means the Recipient's Province of Sindh, which is the Project Implementing Entity.
36. "Sindh Freedom of Information Act (2006)" means Sindh's Act XVI of 2006, aimed at fostering transparency and freedom of information through guaranteeing citizenry's access to Sindh's public records.
37. "Sindh Public Procurement Regulatory Authority" and the acronym "SPPRA" mean the authority established by Sindh pursuant to Notification NO.SO(C-IV)SGA&CD/4-41/09, of June 2, 2009.
38. "Sindh Revenue Board" and the acronym "SRB" mean the board established under the Sindh Revenue Board Act (2010) (Sindh Act XI of 2010), to serve as the entity responsible for the administration, collection and enforcement of the Sindh's Sale Tax on Services.
39. "Sindh Tax Revenue Mobilization Reform Plan" means the tax revenue mobilization plan approved *vide* FD's Letter No. FD/ERU/4-6/2013, dated August 6 2014.
40. "Tax Reform Unit" and the acronym "TRU" mean the unit to be established within the FD pursuant Section I.A.1(d) of the Schedule to the Project Agreement..

41. "Training" means the training, study tours, conferences and workshops conducted and/or attended by staff from the FD, the P&DD and/or the targeted Government Departments and/or other stakeholders in the territory of the Recipient or, subject to the Associations' prior no objection, overseas, including the purchase and publication of materials, rental of facilities, course fees, and lodging, travel expenses and per diems for trainers and/or trainees.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Section 3.02 is modified to read as follows:

"Section 3.02. Service Charge and Interest Charge

- (a) *Service Charge.* The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.
 - (b) *Interest Charge.* The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months."
2. Paragraph 28 of the Appendix ("Financing Payment") is modified by inserting the words "the Interest Charge" between the words "the Service Charge" and "the Commitment Charge".
3. The Appendix is modified by inserting a new paragraph 32 with the following definition of "Interest Charge", and renumbering the remaining paragraphs accordingly:

"32. "Interest Charge" means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b)."
4. Renumbered paragraph 37 (originally paragraph 36) of the Appendix ("Payment Date") is modified by inserting the words "Interest Charges" between the words "Service Charges" and "Commitment Charges".

5. Renumbered paragraph 50 (originally paragraph 49) of the Appendix ("Service Charge") is modified by replacing the reference to Section 3.02 with Section 3.02(a).