

Public Disclosure Authorized

OFFICIAL DOCUMENTS

CREDIT NUMBER 6243-PK

Financing Agreement

(Punjab Cities Program)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

29 May 2018

CREDIT NUMBER 6243-PK

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date 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) apply to and form 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 a credit, deemed by the Association to be on concessional terms, as set forth or referred to in this Agreement, in an amount equivalent to one hundred thirty- seven million six hundred thousand Special Drawing Rights (SDR 137,600,000) (variously, “Credit” and “Financing”), to assist in financing:
 - (a) the program as described in Part 1 (“Program”) of Schedule 1 to this Agreement; and
 - (b) the project as described in Part 2 (“Project”) of Schedule 1 to this Agreement,(the Program and the Project hereinafter jointly referred to as the “Operation”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement. All withdrawals from the Financing Account to which the amount of the Credit allocated for the Program is credited shall be deposited by the Association into an account specified by the Recipient and acceptable to the Association.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.

- 2.04. The Service Charge is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance.
- 2.05. The Interest Charge is one and a quarter percent (1.25%) per annum on the Withdrawn Credit Balance.
- 2.06. The Payment Dates are April 15 and October 15 in each year.
- 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 — OPERATION

- 3.01. The Recipient declares its commitment to the objective of the Operation. To this end, the Recipient shall carry out, through the Operation Implementing Entity, the Operation in accordance with the provisions of Article V of the Program General Conditions, Article V of the Project General Conditions, and Schedule 2 to this Agreement.

ARTICLE IV — TERMINATION

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 4.02. For purposes of Section 10.05 (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 Signature Date.

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 of its Federal Government.
- 5.02. For purposes of Section 10.01 of the General Conditions,

(a) the Recipient's address is:

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

Islamabad, Pakistan
; and

(b) the Recipient's Electronic Address is:

Facsimile:

+92-51-9104016

5.03. For purposes of Section 10.01 of the General Conditions:

(a) The Association's Address is:

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

(b) the Association's Electronic Address is:

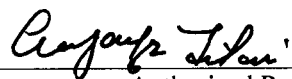
Facsimile:

+1-202-477-6391

AGREED as of the Signature Date.

ISLAMIC REPUBLIC OF PAKISTAN

By



Authorized Representative

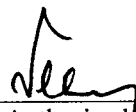
Name: Syed Ghazanfar Abbas Jelani

Title: Secretary, EAD

Date: 29-05-2018

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Patchamuthu Mangovan

Title: Country Director

Date: 29-05-2018

SCHEDULE 1

Operation Description

The objective of the Operation is to strengthen the performance of participating urban local governments in urban management and service delivery.

The Operation consists of the Program and the Project as follows:

Part 1: The Program

The Program consists of the following activities:

Performance Based Grants

Supporting the Operation Implementing Entity's implementation of its PBG program to selected MCs for strengthening their institutional performance and the carrying out eligible infrastructure investments.

Part 2: The Project

The Project consists of the following:

Institutional Strengthening

Provision of technical assistance to: (a) strengthen the institutional capacity of the, LG&CDD, LGB, PMDFC, FD and participating MCs to *inter alia*, develop and implement systems for human resource management, grant management, reporting and audit as well as MC performance assessment; and (b) perform their respective mandates and meet the DLIs.

SCHEDULE 2

Operation Execution

Section I. Implementation Arrangements

A. On-lending Arrangements

1. To facilitate the carrying out of the Operation, the Recipient shall make the proceeds of the Credit available to the Operation Implementing Entity under the same terms and conditions as those under which they are made available by the Association to the Recipient, and in accordance with the Recipient's on-lending and budgetary policies and procedures.
2. Notwithstanding the preceding paragraph, in the event of a conflict between the on-lending and budgetary policies and procedures of the Recipient and the provision of this Agreement, including such additional instructions as the Association shall have specified in the Disbursement and Financial Information Letter, and/or under the General Conditions, the provisions of this Agreement, including said additional instructions shall govern.
3. The Recipient shall exercise its rights under the on-lending arrangements referred to in Section I.A.1 of this Schedule 2 in such a manner as to protect its interest and those of the Association and to accomplish the purposes of the Credit. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive its rights under such arrangements.

Section II. Excluded Activities

1. The Recipient shall ensure that the Program excludes any activities which:
 - (a) in the opinion of the Association, are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people; or
 - (b) involve the procurement of: (1) works, estimated to cost seventy-five million Dollars (USD 75,000,000) equivalent or more per contract; (2) goods, estimated to cost fifty million Dollars (USD 50,000,000) equivalent or more per contract; (3) non-consulting services, estimated to cost fifty million Dollars (USD 50,000,000) equivalent or more per contract; or (4) consultants' services, estimated to cost twenty million Dollars (USD 20,000,000) equivalent or more per contract.

Section III. Operation Monitoring, Reporting and Evaluation

The Recipient shall cause the Operation Implementing Entity to furnish to the Association each Program Report and Project Report not later than thirty (30) days after the end of each calendar semester, covering the calendar semester.

Section IV. Withdrawal of Financing Proceeds

A. General

1. Without limitation upon the provisions of Article II of the Program General Conditions, and Article II of the Project General Conditions, and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance: (a) with respect to the Program, the results (“Disbursement Linked Results” or “DLRs”) achieved by the Operation Implementing Entity, as measured against specific indicators (“Disbursement Linked Indicators” or “DLIs”) in the amount allocated against Categories (1) through (2) of the below table; and (b) with respect to the Project, finance Eligible Expenditures in the amount allocated and, if applicable, up to the percentage set forth against Category (3) of the below table.

Category (including Disbursement Linked Indicator, as applicable)	Amount of Credit (expressed in SDR)	Percentage of Eligible Expenditures to be financed (inclusive of taxes)
(1) DLI #1: MCs have achieved Minimum Access Conditions	30,960,000	Not applicable
(2) DLI#2: MCs have achieved Performance Measures as scored in the APA	92,880,000	Not applicable
(3) Goods, non-consulting, consulting services, Training and Incremental Operating Costs	13,760,000	100%
TOTAL AMOUNT	137,600,000	

B. Withdrawal Conditions for the Program

1. Notwithstanding the provisions of Part A of this Section, with respect to Categories (1) and (2), no withdrawal shall be made:

- (a) for purposes of Section 2.03 of the Program General Conditions, for DLRs achieved prior to the Signature Date; or/and
 - (b) for any DLR until and unless the Recipient has furnished evidence satisfactory to the Association that said DLR has been achieved.
2. Notwithstanding the provisions of Part B.1 of this Section, with respect to the Program, if any of the DLR has not been achieved by the date by which the said DLR is set to be achieved, the Association may, by notice to the Recipient:
- (a) authorize the withdrawal of such lesser amount of the unwithdrawn proceeds of the Financing then allocated to said Category which, in the opinion of the Association, corresponds to the extent of achievement of said DLR(s), said lesser amount to be calculated in accordance with the formula set out in Schedule 2 to this Agreement;
 - (b) reallocate all or a portion of the proceeds of the Financing then allocated to said DLR to any other DLR; and/or
 - (c) cancel all or a portion of the proceeds of the Financing then allocated to said DLR.

C. Withdrawal Conditions for the Project

Notwithstanding the provisions of Section V.A of this Schedule, with respect to Category (3) the Project, no withdrawal shall be made for payments made in respect of the Project prior to the Signature Date

D. Operation Withdrawal Period

The Closing Date is September 30, 2023.

SCHEDULE 3

Disbursement Linked Indicators, Disbursement Linked Results and Allocated Amounts

DISBURSEMENT LINKED INDICATORS	DISBURSEMENT-LINKED RESULTS				
	RESULTS TO BE ACHIEVED IN FY 2018 (YEAR 1)	RESULTS TO BE ACHIEVED IN FY 2019 (YEAR 2)	RESULTS TO BE ACHIEVED IN FY 2020 (YEAR 3)	RESULTS TO BE ACHIEVED IN FY 2021 (YEAR 4)	RESULTS TO BE ACHIEVED IN FY 2022 (YEAR 5)
1. MCs have achieved Minimum Access Conditions	Number of MCs achieving Reduced MACs	Number of MCs achieving all MACs as confirmed by the APA	Number of MCs achieving all MACs as confirmed by the APA	Number of MCs achieving all MACs as confirmed by the APA	Number of MCs achieving all MACs as confirmed by the APA
<i>Allocated Amounts</i>	USD 625,000 multiplied by the number of MCs attaining the MACs*	USD 625,000 multiplied by the number of MCs attaining the MACs*	USD 625,000 multiplied by the number of MCs attaining the MACs*	USD 625,000 multiplied by the number of MCs attaining the MACs*	USD 312,500 multiplied by the number of MCs attaining the MACs*
2. MCs have achieved Performance Measures as scored in the APA		MCs have an Average Score of 40 points in the PM's APA	MCs have an Average Score of 50 points in the PM's APA	MCs have an Average Score of 60 points in the PM's APA	MCs have an Average Score of 70 points in the PM's APA
<i>Allocated Amounts</i>		The target disbursement amount for the Average Score of 40 points is USD 35,000,000. The target disbursement amount shall be adjusted per actual Average Score from APA, based on the following formula:	The target disbursement amount for the Average Score of 50 points is USD 40,000,000. The target disbursement amount shall be adjusted per actual Average Score from APA, based on the following formula:	The target disbursement amount for the Average Score of 60 points is USD 45,000,000. The target disbursement amount shall be adjusted per actual Average Score from APA, based on the following formula:	The target disbursement amount for the Average Score of 70 points is USD 15,000,000. The target disbursement amount shall be adjusted per actual Average Score from APA, based on the following formula:

DISBURSEMENT LINKED INDICATORS	DISBURSEMENT-LINKED RESULTS				
	RESULTS TO BE ACHIEVED IN FY 2018 (YEAR 1)	RESULTS TO BE ACHIEVED IN FY 2019 (YEAR 2)	RESULTS TO BE ACHIEVED IN FY 2020 (YEAR 3)	RESULTS TO BE ACHIEVED IN FY 2021 (YEAR 4)	RESULTS TO BE ACHIEVED IN FY 2022 (YEAR 5)
		The USD amount is: [total annual disbursement] = [Sum of Performance Score of all MCs which have achieved all MACs] X [target disbursement amount] / [40 X 16] ^	The USD amount is: [total annual disbursement] = [Sum of Performance Score of all MCs which have achieved all MACs] X [target disbursement amount] / [50 X 16] ^	The USD amount is: [total annual disbursement] = [Sum of Performance Score of all MCs which have achieved all MACs] X [target disbursement amount] / [60 X 16] ^	The USD amount is: [total annual disbursement] = [Sum of Performance Score of all MCs which have achieved all MACs] X [target disbursement amount] / [70 X 16] ^

* The OIE will divide the total disbursement amount among the MCs achieving the MACs on the basis of their respective PFC Shares.

^ The OIE will divide the total disbursement amount between the MCs achieving all MACs on the basis of their respective PFC Shares and respective Performance Scores.

SCHEDULE 4

Commitment-Linked Amortization Repayment Schedule

The following table sets forth the Principal Payment Dates of the Credit and the percentage of the total principal amount of the Credit payable on each Principal Payment Date ("Installment Share").

Level Principal Repayments

Principal Payment Date	Installment Share
On each April 15 and October 15 Beginning October 15, 2023 through April 15, 2043	1.65%
On October 15, 2043 through April 15, 2048	3.4%

APPENDIX

Definitions

1. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the Program General Conditions, the Association’s “Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing,” dated February 1, 2012, and revised July 10, 2015. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the Project General Conditions, 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 and as of July 1, 2016.
2. “Anti-corruption Protocol” means the protocols for the Program dated April 23, 2018 for the coordination and cooperation in the implementation of the Anti-Corruption Guidelines, as agreed between the Recipient, the Operation Implementing Entity and the Association, and referred to in Section I.F of the Schedule to the Operation Agreement, as the same may be amended from time to time by mutual agreement between the Operation Implementing Entity and the Association.
3. “Annual Performance Assessment” or “APA” means each of the annual performance assessments to ensure MCs compliance with MACs and PMs as set forth in Section I.D.2(b) of the Schedule to the Operation Agreement.
4. "Average Score" means the average Performance Score of all MCs measured against the Performance Measures for a given FY, as set out in the Program Operations Manual and calculated in accordance with the methodology described in said manual.
5. “Category” means a category set forth in the table in Section IV.A.1 of Schedule 2 to this Agreement.
6. “Disbursement Linked Indicator” or “DLI” means in respect of a given Category, the indicator related to said Category as set forth in the table in Section IV.A.1 of Schedule 2 to this Agreement.
7. “Disbursement Linked Result” or “DLR” means in respect of a given Category, the result under said Category as set forth in the table in Section IV.A.1 of Schedule 2 to this Agreement, on the basis of the achievement of which, the amount of the Financing allocated to said result may be withdrawn in accordance with the provisions of said Section IV.

8. “Eligible Expenditure” means the definition of Eligible Expenditure contained in the Appendix to the Project General Conditions.
9. “Environmental and Social Management Framework” or “ESMF” means the environmental and social management framework, developed for the Project and acceptable to the Association, and publicly disclosed on February 6, 2018, setting out the principles, standards, processes and tools to be applied to assess potential adverse environmental and social impacts associated with Project activities and the ways to avoid, minimize and/or mitigate them, with related public consultation, disclosure, reporting and grievance redress procedures, including for the preparation of Environmental and Social Management Plan, as may be required for Project activities, as said framework may be modified from time to time by agreement between the Recipient and the Association.
10. “Environmental and Social Management Plan” or “ESMP” means each plan to be prepared in accordance with the ESMF pursuant to Section I.E of Schedule 2 to the Operation Agreement, each such plan in form and substance satisfactory to the Association, setting out, *inter alia*, details of measures to manage potential environmental and social risks and avoid, minimize and/or mitigate any adverse environmental and social impacts associated with the implementation of Project activities, together with adequate budget, institutional, monitoring, reporting and grievance redress arrangements capable of ensuring proper implementation of, and regular feedback on compliance with, its terms, as said plan may be modified from time to time with the prior written no-objection of the Association, and such term includes any annexes and schedules to such plan
11. “FD” means the Operating Implementing Entity’s Finance Department, or any successor thereto.
12. “Fiscal Year” or “FY” means the Recipient’s and Operation Implementing Entity’s fiscal year, commencing on July 1st of each calendar year, and concluding on June 30th of the following calendar year.
13. “General Conditions” means the Program General Conditions and the Project General Conditions. In such cases, capitalized definitions are the same in both sets of General Conditions. In cases where the capitalized definitions differ, the term will be defined in this Appendix.
14. “Incremental Operating Costs” means the incremental expenditures for the Project incurred by the Recipient or the Operation Implementing Entity for purposes of Project management, implementation, and monitoring and evaluation on account of office supplies and consumables, utilities, bank charges, communications, mass media and printing services, vehicle rental, operation, maintenance, and insurance, office space rental, building and equipment maintenance, domestic and international travel, lodging, and subsistence allowances, and salaries and salary

supplements of contractual and temporary staff, but excluding salaries, salary supplements and overheads of members of the Recipient's or the Operation Implementing Entity's civil service.

15. "LGB" means the Operation Implementing Entity's Local Government Board; or any successor thereto.
16. "LG&CDD" means the Operation Implementing Entity's Local Government and Community Development Department; or any successor thereto.
17. "Minimum Access Conditions" or "MACs" means a set of minimum performance conditions, agreed to between the Operation Implementing Entity and a selected MC, as spelled out in the POM, and verified annually, which conditions are primarily aimed at ensuring that said MC maintains acceptable technical, fiduciary, environmental, and social risks standards, including in the areas of (i) investment planning and budgeting; (ii) human resources; (iii) procurement; (iv) financial management and audit; (v) environment and social management; (vi) transparency.
18. "Municipal Committee" or "MC" means a selected participating urban local government which is a beneficiary for the purposes of the Operation; and the term "MCs" means the plural thereof.
19. "Operation Implementing Entity" or "OIE" means: (i) the Recipient's Province of Punjab; (ii) for purposes of the Program General Conditions, the Program Implementing Entity; and (iii) for purposes of the Project General Conditions, the Project Implementing Entity.
20. "Performance-Based Grant" or "PBG" means a budget transfer in the form of a grant to be provided by the Operation Implementing Entity to an eligible MC based on their APA results for MACs and PMs and weighed by the PFC Award Formula, for purposes of carrying out selected infrastructure investments; and "Performance-Based Grants" or "PBG" means the plural thereof.
21. "Performance Measures" or "PMs" means a set of minimum performance measures, agreed to between the Operation Implementing Entity and a selected MC and verified annually, which will build on the foundations laid by MACs, and will challenge the MCs to raise their performance to achieve incremental targets every year during the implementation of the Operation.
22. "Performance Score" means score of an MC measured against the Performance Measures as set out in the Program Operations Manual and calculated in accordance with the methodology described in said manual.

23. "PFC Shares" means Inter Se Shares of Local Governments for MCs as provided in the Punjab Finance Commission Award which is effective at the time of distribution.
24. "P&D Board" means the Board established within P&DD.
25. "P&DD" means the Operation Implementing Entity's Planning and Development Department, or any successor thereto.
26. "PMDFC" Punjab Municipal Development Fund Company, incorporated under the laws of the Recipient; or any successor thereto.
27. "Program General Conditions" means the "International Development Association General Conditions for IDA Financing, Program-for-Results Financing", dated July 14, 2017.
28. "Program Operations Manual" or "POM" means the operations manual for the Program referred to in Section I.B of the Schedule to the Operations Agreement.
29. "Project General Conditions" means the "International Development Association General Conditions for IDA Financing, Investment Project Financing", dated July 14, 2017.
30. "Procurement Regulations" means, for purposes of paragraph 87 of the Appendix to the Project General Conditions, the "World Bank Procurement Regulations for IPF Borrowers", dated July 2016.
31. "Program Action Plan" means a plan adopted by the Operation Implementing Entity and referred to in Section I.C of the Schedule to the Operation Agreement, as may be amended from time to time with the agreement of the Association.
32. "Province of Punjab" and "Punjab" mean the Recipient's Province of Punjab.
33. "Reduced MACs" means, for the purposes of DLI1, Year 1 in the second column of the table of Schedule 3 of this Agreement, the following Minimum Access Conditions: 1.1, 1.2, 2.1, 4.1, 5.1, 5.2, 5.3, 6.1, 6.2, 6.3, and 7.1, listed in the POM.
34. "Safeguard Instruments" means collectively the ESMF and ESMPs.
35. "Signature Date" means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to "the date of the Financing Agreement" in the General Conditions.